

MHLONTLO LOCAL MUNICIPALITY

SCHEDULE A

FINAL ANNUAL BUDGET AND
SUPPORTING DOCUMENTATION
OF A MUNICIPALITY

FINAL ANNUAL BUDGET OF

MHLONTLO LOCAL MUNICIPALITY



2019/20 TO 2021/22
MEDIUM TERM REVENUE AND
EXPENDITURE FORECASTS

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Abbreviations and Acronyms

ASGISA	Accelerated and Shared Growth Initiative	LED	Local Economic Development
BPC	Budget Planning Committee	MEC	Member of the Executive Committee
CBD	Central Business District	MFMA	Municipal Financial Management Act Programme
CFO	Chief Financial Officer	MIG	Municipal Infrastructure Grant
CPI	Consumer Price Index	MPRA	Municipal Properties Rates Act
CRRF	Capital Replacement Reserve Fund	MSA	Municipal Systems Act
DoRA	Division of Revenue Act	MTEF	Medium-term Expenditure Framework
EE	Employment Equity	MTREF	Medium-term Revenue and Expenditure Framework
FBS	Free basic services	NGO	Non-Governmental organisations
GRAP	Generally Recognised Accounting Practice	NKPIs	National Key Performance Indicators
GDP	Gross domestic product	OHS	Occupational Health and Safety
GFS	Government Financial Statistics	OP	Operational Plan
HR	Human Resources	PBO	Public Benefit Organisations
IDP	Integrated Development Strategy	PHC	Provincial Health Care
IT	Information Technology	PMS	Performance Management System
kℓ	kilolitre	PPE	Property Plant and Equipment
km	kilometre	PPP	Public Private Partnership
KPA	Key Performance Area	SDBIP	Service Delivery Budget Implementation Plan
KPI	Key Performance Indicator	SMME	Small Micro and Medium Enterprises
kWh	kilowatt		
ℓ	litre		

Part 1 – Annual Budget

1.1 Mayor's Report

Councillors, municipal manager, head of departments, guests, ladies and gentlemen, greetings to you all.

Mhlontlo Municipality is again preparing for the 2019/2020 budget year set the task to provide sustainable and economically viable local governance to our communities. The provision of affordable and sustainable, quality services to all our communities remain high on the agenda. We find ourselves in a position where we must continuously adapt our strategies to suit prevailing economic circumstances as we cannot isolate ourselves from the global economy.

According to the National treasury the GDP is forecasted at 1.5% in 2020, 1,7 in 2021 and 2.1% in 2022. The revisions take into account weaker investment outcomes in 2019, a more fragile recovery in household income and slower export demand than expected due to moderating global growth. Consumer inflation has also been revised down due to lower oil prices and food inflation than previously assumed.

The main risks to the economic outlook are continued policy uncertainty and deterioration in the finances of state-owned entities. These factors, alongside continued high unemployment and slow growth will continue to exert pressure on municipal revenue generation and collection levels hence a conservative approach is advised for municipal revenue projections. In this context, the municipality will have to improve the effort to limit non-priority spending and to implement stringent cost-containment measures.

It is because of this that we still place strong emphasis on value for money in all our procurement processes, and that we continue to encourage savings and strive to maximize all possible revenue sources for the 2019/2020 financial year in us striving to secure the economic progression of the municipality.

It is expected that municipal revenue and cash flows will remain under pressure in 2019/20 we are adopting a conservative approach when projecting our revenues and cash receipts for 2019/20.

The Municipality must, against the background of a very difficult financial year, balance its books. The equitable share allocation remains far too little for the proper administration and service delivery in the area, and the municipality therefore needs to rely on savings and critical cut-backs to ensure financial sustainability.

The budget I am tabling here today was prepared in accordance with the prescripts of the Municipal Finance Management Act, (Act 56 of 2003) and complies with Generally Recognized Accounting Practice as applicable to Local Government.

The budget was compiled, taking into account the Macro-economic growth parameters and also addresses the following National Policy frameworks and Provincial priorities including the following:

- Incremental channeling of funds towards infrastructure development, poverty alleviation and job creation.
- Participation in expanded public works programs and labour intensive projects.
- Building of capacity for long term growth through investment in infrastructure
- Maintaining of debt levels through debtor management as well as maximizing sources of revenue.
- Focus on **core** service delivery activities of local government
- The building of an efficient developmental municipality through increasing the levels of delivery by ensuring improvements to policy formulation, procurement, management systems, developing mechanisms for sharing skilled personnel in critical delivery areas

The following underlying factors were also taken into consideration with the compilation of the 2019/2020 draft budget:

- The current socio-economic circumstances of our communities and especially the high rate of unemployment
- External factors having a direct impact on the budget such as the consumer inflation, the wage agreement concluded with organized labour as well as other cost factors influencing service delivery.

FOCUS OF THE 2019/2020 BUDGET

- With the 2019/2020 budget, emphasis is placed on the **core** service delivery obligations assigned to the municipality in the constitution.
- Maintenance of existing infrastructure enjoys preference once again and we are focusing on preventative and scheduled maintenance preceded by proper planning processes.
- Provision of basic services, and infrastructure as well as sustainable service delivery.

The capital budget flows from the IDP process and contains information obtained from relevant stakeholders and communities through a public participation process as well as ward committee processes where applicable.

The capital budget for the 2019/2020 financial year amounts to R79.7 Million.

We cannot expect to do the same old things and expect different results. Management within local government has a significant role to play in strengthening the link between the citizen and government's overall priorities and spending plans. The goal should be to enhance service delivery aimed at improving the quality of life for all people within the Mhlontlo Local Municipality.

Budgeting is primarily about the choices that the municipality must make between competing priorities and fiscal realities. The challenge is to do more with the available resources. We need

to remain focused on the effective delivery of the core municipal services through the application of efficient and effective service delivery mechanisms.

The application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that Mhlontlo remains financially viable and that sustainable municipal services are provided economically and equitably to all communities.

1.2 Council Resolutions

1. That in terms of section 24 of the Municipal Finance Management Act, 56 of 2003, the draft Annual budget of Mhlontlo Municipality for the financial year 2019/20; and indicative allocations for the two projected outer years 2020/21 and 2021/22; and the multi-year and single year capital appropriations are approved as set-out in the following tables:
 - 1.1. Budgeted Financial Performance (revenue and expenditure by standard classification);
 - 1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote);
 - 1.3. Budgeted Financial Performance (revenue by source and expenditure by type); and
 - 1.4. Multi-year and single year capital appropriations by municipal vote and standard classification and associated funding by source.
2. That the financial position, cash flow, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are adopted as set-out in the following tables:
 - 2.1. Budgeted Financial Position;
 - 2.2. Budgeted Cash Flows;
 - 2.3. Cash backed reserves and accumulated surplus reconciliation;
 - 2.4. Asset management; and
 - 2.5. Basic service delivery measurement.
3. That in terms of section 24(2)(c)(i) and (ii) of the Municipal Finance Management Act 56 of 2003 and sections 74 and 75A of the Local Government: Municipal Systems Act 32 of 2000 as amended, the tariffs for property rates and refuse removal as set out in annexure A, that were used to prepare the estimates of revenue by source, are approved with effect from 1 July 2019.
4. That in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) the tariffs for other services, as set out in Annexure A, that were used in compiling the final budget, are approved with effect from 1 July 2018
5. That in terms of section 24(2)(c)(iii) of the Municipal Finance Management Act, 56 of 2003, the measurable performance objectives for capital and operating expenditure by vote for each year of the medium term revenue and expenditure framework as set out in Supporting Table SA7 are approved.
6. That free basic services be provided to all registered indigent consumers **only** as follows:
 - The first 50 units of electricity free of charge
 - Refuse removal - full subsidy of single residential monthly levy and town cleaning levy
 - Property rates 100% subsidy

- Alternative Energy 20 litres of paraffin
 -
7. That interest be charged on all debtor's accounts outstanding for a period of more than 30 days at an interest rate of 5%.
 8. That in terms of the provisions of **Section 75A** of the Municipal Systems Act, 32 of 2000, the notice of the tariff amendments be displayed on notice boards at all municipal offices, libraries, and be advertised in local newspapers.
 9. That in terms of the provisions of the Municipal Property Rates Act, (Act 6 of 2004) the remissions be granted to property owners in terms of the provisions of the municipal rates policy subject to the conditions contained in said policy
 10. That the amount due in respect of annual assessment rates for the 2019/20 be due and payable on or before 30 September 2019.
 11. That the amount due in respect of monthly Assessment rates and other service, basic and consumption charges, fees and penalties be due and payable on or before the following dates: 15 July 2019, 15 August 2019, 15 September 2019, 15 October 2019, 14 November 2019, 15 December 2019, 15 January 2020, 13 February 2020, 13 March 2020, 15 April 2020, 15 May 2020, 15 June 2020.
 12. That in terms of section 5 of the Municipal Property Rates Act, 6 of 2004, the amendments to the rates policy as indicated are approved with effect 1 July 2019.
 13. That in terms of the municipal budget and reporting regulations, paragraph 7, the amendments to the budget policies, as indicated, are approved with effect 1 July 2019.
 14. That in terms of section 24(2)(c)(iv) of the Municipal Finance Management Act, 56 of 2003, the final IDP for 2019/20 – 2021/22 be approved.
 15. That the final documents be available for inspection and comments at the following places: Qumbu Municipal office and Tsolo Municipal Office

1.3 Executive Summary

The application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that Mhlontlo remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programs so as to maintain sound financial stewardship.

A critical review was also undertaken of expenditures on noncore and '**nice to have**' items. Key areas where savings were realized were on unfunded mandates, telephone and internet usage, printing, workshops, accommodation, and catering.

The municipality is in the process of developing and implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, we will undertake various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No. 94 was used to guide the compilation of the 2019/20 MTREF.

The main challenges experienced during the compilation of the 2019/20 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained infrastructure especially on rural roads;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Availability of affordable capital/borrowing.

The following budget principles and guidelines directly informed the compilation of the 2019/20 MTREF:

- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality,
- In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;
- An upper limit was set for the following items and allocations to these items had to be supported by a list and/or motivation setting out the intention and cost of the expenditure which was used to prioritise expenditures:
 - Special Projects;
 - Consultant Fees;
 - Furniture and office equipment;

- Special Events;
- Refreshments and entertainment;
- Ad-hoc travelling; and
- Subsistence, Travelling & Conference fees (national & international).

The following table is a consolidated overview of the proposed 2019/20 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2019/20 MTREF

	ORIGINAL BUDGET 2018/2019	ADJUSTED BUDGET 2018/2019	ANNUAL BUDGET 2019/2020
Total Revenue	289,794,382.51	308,195,628.21	309,177,441.49
Operational Expenditure	-313,679,261.44	-331,970,084.69	-341,393,702.31
Capital Expenditure	-62,611,060.22	-106,079,771.36	-68,198,488.60
SURPLUS/DEFICIT	-86,495,939.14	-129,854,227.83	-111,940,349.42

Total revenue has decreased for the 2019/20 financial year when compared to the 2018/19 Adjustments Budget.

Total operating expenditure for the 2019/20 financial year has been appropriated at R341 million. The operating deficit has decreased from R129 million to R111 million. The deficit is due to the following non-cash item: -

- Depreciation R115,7 million

The capital budget of R68 million for 2019/20 is less when compared to the 2018/19 Adjustment Budget. Less funding will be obtained from municipal reserves, hence the decrease.

1.4 Operating Revenue Framework

For Mhlontlo Local Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy will be built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the Mhlontlo and continued economic development;
- Efficient revenue management, which aims to ensure a 95 per cent annual collection rate for property rates and other key service charges;
- Achievement of full cost recovery of specific user charges especially in relation to trading services;

- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of Mhlontlo.

The following table is a summary of the 2019/20 MTREF (classified by main revenue source)

Table 2 Summary of revenue classified by main revenue source

Description	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Financial Performance										
Property rates	31 807	17 115	8 883	21 015	16 601	16 601	–	16 601	17 497	18 442
Service charges	1 158	1 278	1 360	1 377	1 377	1 377	–	1 449	1 527	1 610
Investment revenue	3 559	3 918	5 187	4 279	6 979	6 979	–	6 300	6 641	6 999
Transfers recognised - operational	182 184	174 668	175 073	171 125	172 407	172 407	–	200 396	211 217	222 623
Other own revenue	4 955	5 522	5 005	29 386	4 751	4 751	–	4 707	4 961	5 229
Total Revenue (excluding capital transfers and contributions)	223 664	202 502	195 509	227 183	202 116	202 116	–	229 453	241 844	254 903

Table 3 Operating Transfers and Grant Receipts

Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
RECEIPTS:	1, 2									
– Operating Transfers and Grants										
National Government:		175 279	170 055	177 141	170 166	174 183	174 183	199 896	208 780	219 686
Local Government Equitable Share		159 404	154 313	159 379	165 930	165 930	165 930	184 192	194 849	206 519
Finance Management		1 875	2 010	2 345	2 415	2 415	2 415	2 415	2 415	2 415
EPWP Incentive		1 000	1 232	1 417	1 821	1 821	1 821	1 781	–	–
Integrated National Electrification Programme		13 000	12 500	14 000	–	4 017	4 017	11 508	11 516	10 752
Provincial Government:		170	350	500	300	500	500	500	500	500
Sport and Recreation		170	350	500	300	500	500	500	500	500

District Municipality:		-	-	-	-	-	-	-	-	-
<i>[insert description]</i>										
Other grant providers:		-	-	3 610	-	-	-	-	-	-
<i>Local Government SETA</i>				654						
<i>DEDEAT</i>				941						
<i>EPWP DEDEAT</i>				751						
<i>Tsitsa Fire Management grant</i>				1 263						
Total Operating Transfers and Grants	5	175 449	170 405	181 251	170 466	174 683	174 683	200 396	209 280	220 186

1.4.1 Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0,25:1. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

The following stipulations in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA). In addition to this rebate, a further R25 000 reduction on the market value of a property will be granted in terms of the Municipality's own Property Rates Policy;
- 35 per cent rebate will be granted on all residential properties (including state owned residential properties);
- 100 per cent rebate will be granted to registered indigents in terms of the Indigent Policy;
- For pensioners, physically and mentally disabled persons, a maximum/total rebate of 50 per cent (calculated on a sliding scale) will be granted to owners of rate-able property if the total gross income of the applicant and/or his/her spouse, if any, does not to exceed the amount equal to twice the annual state pension as approved by the National Government for a financial year. In this regard the following stipulations are relevant:
 - The rate-able property concerned must be occupied only by the applicant and his/her spouse, if any, and by dependents without income;
 - The applicant must submit proof of his/her age and identity and, in the case of a physically or mentally handicapped person, proof of certification by a Medical Officer of Health, also proof of the annual income from a social pension;
 - The applicant's account must be paid in full, or if not, an arrangement to pay the debt should be in place; and
 - The property must be categorized as residential.

- The Municipality may award a 100 per cent grant-in-aid on the assessment rates of rateable properties of certain classes such as registered welfare organizations, institutions or organizations performing charitable work, sports grounds used for purposes of amateur sport. The owner of such a property must apply to the Chief Financial Officer in the prescribed format for such a grant.

The categories of rateable properties for purposes of levying rates and the proposed rates for the 2019/20 financial year based on a 5.2 per cent increase from 1 July 2019 is contained below:

Table 4 Comparison of proposed rates to levied for the 2019/19 financial year

WITHOUT VAT	Old Tariff	Proposed New Tariff Vat Excluded	Proposed Tariff Vat Excluded	Proposed Tariff Vat Excluded
ASSESMENT RATES				
<u>Residential</u>	R 0.00742	R 0.00781	R 0.00783	R 0.00826
<u>Vacant Land</u>	R 0.00742	R 0.00781	R 0.00783	R 0.00826
<u>Commercial</u>	R 0.01637	R 0.01722	R 0.01725	R 0.01820
<u>Government</u>	R 0.00186	R 0.00195	R 0.00196	R 0.00206
<u>Farms</u> Apply for R30 000 residential discount.	R 0.00186	R 0.00195	R 0.00196	R 0.00206

1.4.2 Waste Removal and Impact of Tariff Increases

Currently solid waste removal is operating at a deficit. It is widely accepted that the rendering of this service should at least break even, which is currently not the case. The municipality will have to implement a solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term.

The main contributors to this deficit are repairs and maintenance on vehicles, increases in general expenditure such as petrol and diesel and the cost of remuneration. Considering the deficit, it is recommended that a comprehensive investigation into the cost structure of solid waste function be undertaken, and that this include investigating alternative service delivery models. The outcomes of this investigation will be incorporated into the next planning cycle.

A 5.4 per cent increase in the waste removal tariff is proposed from 1 July 2019. Higher increases will not be viable in 2019/20. Any increase higher than 9 per cent would be counter-productive

and will result in affordability challenges for individual rates payers raising the risk associated with bad debt.

The following table compares current and proposed amounts payable from 1 July 2019:

Table 5 Comparison between current waste removal fees and increases

WITHOUT VAT	Old Tariff	Proposed New Tariff Vat Excluded	Proposed Tariff Vat Excluded	Proposed Tariff Vat Excluded
REFUSE REMOVAL CHARGES	2018/2019	2019/2020	2020/2021	2021/2022
<i>Government</i>				
Each property shall be charged a basic service charge per month.	R 241.52	R 254.08	R 254.57	R 268.57
<i>Hospitals</i>	R 350.85	R 369.09	R 369.80	R 390.14
<i>Domestic Removals</i>				
Every owner or occupier of premises from which refuse is removed twice weekly shall pay the Council a fee per month.	R 57.55	R 60.55	R 60.66	R 64.00
<i>Commercial Removals</i>				
Each individual/separate business shall be charged a basic service charge per month.	R 358.30	R 376.93	R 377.65	R 398.42
<i>Availability Charge</i>				
A availability fee , is charged to any vacant commercial erven located in the town areas of Tsolo and Qumbu	R 143.32	R 150.77	R 151.06	R 159.37

1.5 Operating Expenditure Framework

The Municipality's expenditure framework for the 2019/20 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital program is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plan no budget*. If there is no business plan no funding allocation can be made.

The following table is a high level summary of the 2019/20 budget and MTREF (classified per main type of operating expenditure):

Table 6 Summary of operating expenditure by standard classification item

Description R thousand	Ref	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Expenditure By Type	-										
Employee related costs	2	75 695	78 876	81 097	95 075	96 349	96 349	-	116 101	122 371	128 979
Remuneration of councillors		16 411	16 364	17 671	25 626	18 737	18 737		22 176	23 373	24 635
Debt impairment	3	12 393	19 348	(724)	0	24 500	24 500		22 500	23 715	24 996
Depreciation & asset impairment	2	96 373	114 388	102 271	98 503	105 753	105 753	-	115 763	122 014	128 603
Other materials	8	2 985	3 320	3 954		6 704	6 704				
Contracted services		-	-	-	23 957	27 169	27 169	-	7 871	8 296	8 744
Transfers and subsidies		-	-	-	-	-	-	-	2 283	2 406	2 536
Other expenditure	4, 5	-	-	-	70 517	52 757	52 757	-	54 701	57 654	60 768
Loss on disposal of PPE		407	2 066	1 273							
Total Expenditure		204 264	234 360	205 541	313 679	331 970	331 970	-	341 394	359 829	379 260

The budgeted allocation for employee related costs for the 2019/20 financial year totals R116 million, which equals 51 per cent of the total operating expenditure. Based on the three-year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 6.5 per cent, and 2.5 per cent for the 2019/20 financial year.

As part of the planning assumptions and interventions all vacancies were originally removed from the budget and a report was compiled by the Corporate Services Department relating to the prioritization of critical vacancies within the Municipality. The outcome of this exercise was finalised relating to critical and strategically important vacancies. In addition, expenditure against overtime was significantly reduced, with provisions against this budget item only being provided for emergency services and other critical functions.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the current budget. A provision for a 6% increment has been into account.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R115 million for the 2019/20 financial and equates to 31 per cent of the total operating expenditure. Note that the implementation of GRAP 17 accounting standard has meant bringing a range of assets previously not included in the assets register onto the register.

Repairs and maintenance - this group of expenditure has been prioritised to ensure sustainability of the municipality's infrastructure. For 2019/20 the appropriation against this group of expenditure has increased from by R3.3 million to R5.9 million. This amount is included under other expenses.

Contracted services - As part of the compilation of the 2019/20 MTREF this group of expenditure was critically evaluated, and operational efficiencies were enforced. In the 2019/20 financial year, this group of expenditure has decreased drastically mainly because of road maintenance that was performed by contractors in the 2018-2019 financial year.

Figure 1 Main operational expenditure categories for the 2019/20 financial year

The table below illustrates some of the major operating projects that have been prioritized for implementation in the upcoming financial year.

Project Name	Amount
Fencing of Qumbu Cemetery	200,000.00
Maintenance of cemeteries	427,200.00
Ploughing of 104 food gardens	364,000.00
Repairs to four hydroponic tunnels	100,000.00
Purchase kiddies games and design kiddies centre	257,000.00
Host one tourism month event.	88,750.00
Host one tourism event on Bajodini Horse Racing	303,000.00
Tourism Indaba	175,400.00
Implementation of Trade and investment Strategy	193,750.00
Training of 60 Beneficiaries on brick making	670,690.00
Training of 30 Beneficiaries on Sewing	555,000.00
Supply of Trading equipment to 100 Informal Traders	450,000.00
Small Town Revitalisation workshop	300,000.00
Review of Qumbu Revitalisation Plan	200,000.00
Development of By - Laws	450,000.00
Development of Wall to wall Land Use Management System (LUMS)	600,000.00
Development of Tsolo Junction to Tsolo Town urban development spine	450,000.00
Qumbu- Impounding of animals	540,000.00
Tsolo- Impounding of animals	320,000.00
40 employees to be trained and capacitated in line with WSP.	331,443.00
Review and Implement employment equity plan	6,885.00
Implement and review HR Policies.	335,335.00
Maintain and update HR systems	24,000.00
Implement O.H.S. and wellness plan	257,600.00
Construction of VTC	2,000,000.00
Licencing and Registration of 1000 vehicles	367,200.00
Testing of 2000 learner drivers	1,808,000.00
Maintain road signs ad markings	126,000.00
Review of community safety and security plan	100,000.00
Provision of security Services	5,400,000.00
Host quarterly community safety forum meetings	15,720.00

Law enforcement	202,750.00
Purchase of Traffic Employees Protective Clothing	500,000.00
Quarterly Calibration of Prolazer III	52,000.00
Project Budget - HIV/AIDS	391,000.00
Project Budget - Elderly	742,800.00
Project Budget - Women	145,500.00
Project Budget - Disabled	684,048.00
Project Budget - Children	403,900.00
Project Budget - Youth	611,000.00
Tsolo Highmast lights	1,101,055.52
Qumbu Highmast lights	1,101,055.52
Maintenance of rural roads	2,040,123.00
EPWP	1,781,000.00
Vehicles	72,000.00
Material and equipment	24,000.00
Street lights	762,300.00
Maintenance of urban roads-Qumbu	1,215,000.00
Maintenance of urban roads- Tsolo	1,075,000.00
Maintenance of rural roads	2,040,123.00
Maintenance of landfill sites	400,000.00
Municipal EPWP	3,000,000.00
Cleaning of towns	3,428,000.00
	39,189,628.04

1.5.1 Priority given to repairs and maintenance

During the compilation of the 2019/20 MTREF operational repairs and maintenance was identified as a strategic imperative owing to the aging of the municipality's infrastructure and historic deferred maintenance. However, due to budget constraints repairs and maintenance budget is still sitting at a very low percentage compared to the Treasury norms.

The table below provides a breakdown of the repairs and maintenance in relation to asset class:

Table 7 Operational repairs and maintenance

Table 8 Repairs and maintenance per asset class

Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousand	1									
<u>Repairs and maintenance expenditure by Asset Class/Sub-class</u>										
<u>Infrastructure</u>		-	-	-	-	-	-	2 964	3 124	3 293

Electrical Infrastructure		-	-	-	-	-	-	2 964	3 124	3 293
<i>LV Networks</i>								762	803	847
<i>Capital Spares</i>								2 202	2 321	2 446
<u>Other assets</u>		-	-	-	-	-	-	2 133	2 248	2 370
Operational Buildings		-	-	-	-	-	-	2 133	2 248	2 370
<i>Municipal Offices</i>								2 133	2 248	2 370
<u>Intangible Assets</u>		-	-	-	-	-	-	401	423	445
Licences and Rights		-	-	-	-	-	-	401	423	445
<i>Solid Waste Licenses</i>								401	423	445
<u>Furniture and Office Equipment</u>		-	-	-	-	-	-	20	21	22
Furniture and Office Equipment								20	21	22
<u>Transport Assets</u>		-	-	-	-	-	-	409	431	455
Transport Assets								409	431	455
Total Repairs and Maintenance Expenditure	1	-	-	-	-	-	-	5 928	6 248	6 585

1.5.2 Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services, the households are required to register in terms of the municipality's Indigent Policy.

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

The municipality has set aside an amount totaling to R2.5 million for electricity indigents, and R2.5 million for alternate energy indigents.

1.6 Capital expenditure

The following table provides a breakdown of budgeted capital expenditure by vote:

Table 9 2019/19 Medium-term capital budget per vote

Vote Description R thousand	Ref	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<u>Single-year expenditure to be appropriated</u>	2										
Vote 3 - Municipal Manager		34	240	48	60	60	60	–	–	–	–
Vote 4 - Budget and Treasury Office		7,066	2,581	–	1,560	1,560	1,560	–	–	–	–
Vote 5 - Corporate Services		–	229	1,681	1,524	2,124	2,124	–	2,000	2,108	2,222
Vote 6 - Local Economic Planning and Development		–	–	1,764	4,315	4,215	4,215	–	9,814	10,344	10,903
Vote 7 - Community and Social Services		–	185	710	2,360	1,360	1,360	–	2,700	2,846	2,999
Vote 8 - Infrastructure Services		41,222	52,750	58,803	52,792	96,761	96,761	–	53,684	56,583	59,639
Capital single-year expenditure sub-total		48,321	55,985	63,005	62,611	106,080	106,080	–	68,198	71,881	75,763
Total Capital Expenditure - Vote		48,321	55,985	63,005	62,611	106,080	106,080	–	68,198	71,881	75,763

For 2019/20 an amount of R68.1 million has been appropriated for the development of infrastructure which represents 19 per cent of the total budget.

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R thousand		2019/20 Medium Term Revenue & Expenditure Framework	
Function	Project Description	Budget Year 2019/20	Budget Year +2 2021/22
Parent municipality: <i>List all capital projects grouped by Function</i>			
Function:Planning and Development:Core Function:Project Management Unit			
Rehabilitation of sports field - Tsolo sport field		11,840	
Rehabilitation of sports field -Qumbu sport field		12,474	
Rehabilitation of sports field -Mvumelwano sport field		3,544	
Planning for Surfacing :street upgrade - Qumbu streets upgrade		300	
Surfacing of 2.73 km street upgrade - Tsolo streets upgrade		300	
N2 Newrest to Dilizintaba 10,5 km		1,222	
Gravel Access Road of 5.39 km - Kimbili1-Kimbili2		214	
Gravel Access Road of 5.39 km - T 162 Via Stopiyini to Hlabathi		1,666	
Dumba to Tina Falls Access Road		6,290	

Function:Planning and Development:Core Function:Economic Development/Planning	Gravel Access Road of Mdeni Access Road	4,184	
	Gravel Access Road of Machibini to Dumaneni	6,650	
	Community Hall (CDC)	2,100	
	Construct 6 ablutions at Bajodini Horse Racing Course	200	
	Construct 6 ablutions at Mhlontlo Nature Reserve	200	
	Construction of a steel warehouse for brick making incubator	800	
	Purchase of 2 Modular Structures to serve as visitor informal	1,250	
	Purchase of tractor and implements	2,007	
	Construction of Tsitsa falls family chalets	3,007	
	Construction of Tsitsa falls viewing deck	250	
	Function:Community and Social Services:Core Function:Cemeteries, Funeral Parlours and Crematoriums	1,500	
	Function:Road Transport:Core Function:Roads		
	Rehabilitation of Zimbengwini access road 5,2km	1,250	
	Rehabilitation of Nyanisweni access road 5,2km	1,250	
Function:Waste Management:Core Function:Solid Waste Removal	Rehabilitation of Kwamgongo access road 6,1 km	1,250	
	Rehabilitation of Ngxakolo access road 7,8km	1,250	
Function:Finance and Administration:Non-core Function:Human Resources	Transfer station	1,000	
	Furniture Fittings	2,000	
	Storeroom	200	
Parent Capital expenditure		68,198	-
Total Capital expenditure		68,198	-

1.7 Annual Budget Tables - Parent Municipality

The following eighteen pages present the ten main budget tables as required in terms of section 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality's 2019/20 budget and MTREF as approved by the Council. Each table is accompanied by *explanatory notes* on the facing page.

Table 10 MBRR Table A1 - Budget Summary

Description R thousands	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Financial Performance										
Property rates	31,807	17,115	8,883	21,015	16,601	16,601	–	16,601	17,497	18,442
Service charges	1,158	1,278	1,360	1,377	1,377	1,377	–	1,449	1,527	1,610
Investment revenue	3,559	3,918	5,187	4,279	6,979	6,979	–	6,300	6,641	6,999
Transfers recognised - operational	182,184	174,668	175,073	171,125	172,407	172,407	–	200,396	211,217	222,623
Other own revenue	4,955	5,522	5,005	29,386	4,751	4,751	–	4,707	4,961	5,229
Total Revenue (excluding capital transfers and contributions)	223,664	202,502	195,509	227,183	202,116	202,116	–	229,453	241,844	254,903
Employee costs	75,695	78,876	81,097	95,075	96,349	96,349	–	116,101	122,371	128,979
Remuneration of councillors	16,411	16,364	17,671	25,626	18,737	18,737	–	22,176	23,373	24,635
Depreciation & asset impairment	96,373	114,388	102,271	98,503	105,753	105,753	–	115,763	122,014	128,603
Finance charges	–	–	–	–	–	–	–	–	–	–
Materials and bulk purchases	2,985	3,320	3,954	–	6,704	6,704	–	–	–	–
Transfers and grants	–	–	–	–	–	–	–	2,283	2,406	2,536
Other expenditure	12,800	21,414	549	94,475	104,426	104,426	–	85,071	89,665	94,507
Total Expenditure	204,264	234,360	205,541	313,679	331,970	331,970	–	341,394	359,829	379,260
Surplus/(Deficit)	19,400	(31,859)	(10,032)	(86,496)	(129,854)	(129,854)	–	(111,940)	(117,985)	(124,356)
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	38,278	53,620	59,977	62,611	53,763	53,763	–	55,250	58,234	61,378
Contributions recognised - capital & contributed assets	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) after capital transfers & contributions	57,678	21,761	49,946	(23,885)	(76,091)	(76,091)	–	(56,690)	(59,752)	(62,978)
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) for the year	57,678	21,761	49,946	(23,885)	(76,091)	(76,091)	–	(56,690)	(59,752)	(62,978)
Capital expenditure & funds sources										
Capital expenditure	48,321	52,811	63,005	62,611	106,080	106,080	–	68,198	71,881	75,763
Transfers recognised - capital	48,321	52,811	63,005	43,394	53,763	53,763	–	55,250	58,234	61,378
Borrowing	–	–	–	–	–	–	–	–	–	–
Internally generated funds	–	–	–	19,217	52,317	52,317	–	12,948	13,648	14,385
Total sources of capital funds	48,321	52,811	63,005	62,611	106,080	106,080	–	68,198	71,881	75,763
Financial position										
Total current assets	53,803	62,173	99,386	71,220	48,323	48,323	–	114,693	194,170	201,948
Total non current assets	647,635	584,526	544,500	519,462	479,977	479,767	449	578,726	609,504	644,482
Total current liabilities	20,843	27,697	45,561	34,086	12,731	12,731	11,415	46,141	48,633	51,259
Total non current liabilities	5,684	7,051	7,738	–	40,871	40,871	–	29,456	31,047	32,723
Community wealth/Equity	674,912	611,951	590,587	556,596	474,699	474,489	(10,965)	617,822	723,995	762,448

Cash flows										
Net cash from (used) operating	58,010	65,441	105,688	74,619	46,729	46,729	–	(6,267)	(6,606)	(6,962)
Net cash from (used) investing	(47,461)	(54,359)	(62,705)	(62,611)	(53,764)	(53,764)	–	(12,948)	(13,648)	(14,385)
Net cash from (used) financing	–	–	–	–	–	–	–	–	–	–
Cash/cash equivalents at the year end	25,926	37,008	79,990	91,997	84,962	77,927	–	58,711	38,458	17,111
Cash backing/surplus reconciliation										
Cash and investments available	25,926	37,006	79,989	36,997	25,055	25,055	–	75,805	77,191	78,652
Application of cash and investments	5,015	1,751	5,974	(20,020)	1,360	1,360	–	54,345	16,324	17,205
Balance - surplus (shortfall)	20,911	35,256	74,015	57,018	23,696	23,696	–	21,459	60,867	61,446
Asset management										
Asset register summary (WDV)	510,699	454,722	555,506	555,506	–	–	–	578,726	609,978	642,916
Depreciation	–	–	–	–	–	–	–	115,763	122,014	128,603
Renewal and Upgrading of Existing Assets	–	–	–	–	–	–	–	–	–	–
Repairs and Maintenance	–	–	–	–	–	–	–	5,928	6,248	6,585
Free services										
Cost of Free Basic Services provided	–	–	–	–	–	–	–	–	–	–
Revenue cost of free services provided	–	–	–	3,211	3,211	–	4,575	4,575	4,822	5,082
Households below minimum service level										
Water:	–	–	–	–	–	–	–	–	–	–
Sanitation/sewerage:	–	–	–	–	–	–	–	–	–	–
Energy:	–	–	–	–	–	–	–	–	–	–
Refuse:	–	–	–	–	–	–	–	–	–	–

Explanatory notes to MBRR Table A1 - Budget Summary

- Table A1 is a budget summary and provides a concise overview of the Municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
- The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
- Financial management reforms emphasises the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:
 - The operating surplus/deficit (after Total Expenditure) is positive over the MTREF
 - Capital expenditure is balanced by capital funding sources, of which
 - Transfers recognised is reflected on the Financial Performance Budget;
 - Internally generated fund is financed from a combination of the current operating surplus and accumulated cash-backed surpluses from previous years. The amount is incorporated in the Net cash from investing on the Cash Flow Budget. The fact that the municipality's cash flow remains positive, and is improving indicates that the necessary cash resources are available to fund the Capital Budget.

4. The Cash backing/surplus reconciliation shows that the municipality was not paying much attention to managing this aspect of its finances, and consequently many of its obligations are not cash-backed.
5. Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The section of Free Services shows that the amount spent on Free Basic Services and the revenue cost of free services provided by the municipality continues to increase. In addition, the municipality continues to make progress in addressing service delivery backlogs.

Table 11 MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

Functional Classification Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Revenue - Functional										
<i>Governance and administration</i>		128 079	108 362	110 367	132 978	99 289	99 289	117 917	124 284	130 995
Executive and council		44 802	45 949	47 796	43 104	48 159	48 159	46 998	49 536	52 211
Finance and administration		83 277	62 414	62 571	89 874	51 129	51 129	70 919	74 748	78 785
<i>Community and public safety</i>		16 362	17 466	21 485	31 447	19 096	19 096	7 338	7 734	8 152
Community and social services		1 145	1 016	–	2 310	–	–	502	529	558
Public safety		15 217	16 450	21 485	29 137	19 096	19 096	6 836	7 205	7 594
<i>Economic and environmental services</i>		99 262	105 593	102 930	101 353	84 087	84 087	139 741	147 287	155 240
Planning and development		27 316	30 080	25 271	64 432	70 849	70 849	114 982	121 192	127 736
Road transport		71 946	75 513	77 658	36 921	13 238	13 238	24 758	26 095	27 504
<i>Trading services</i>		18 240	24 701	20 705	24 016	22 620	23 020	19 708	20 773	21 894
Energy sources		–	–	–	–	762	762	11 508	12 129	12 784
Waste management		18 240	24 701	20 705	24 016	21 858	22 258	8 200	8 643	9 110
Total Revenue - Functional	2	261 942	256 122	255 486	289 794	225 092	225 492	284 703	300 077	316 282
Expenditure - Functional	-									
<i>Governance and administration</i>		113 487	122 413	102 730	102 700	140 722	140 722	134 862	142 144	149 820
Executive and council		43 128	47 507	46 311	43 044	47 633	47 633	58 066	61 201	64 506
Finance and administration		70 360	74 906	56 419	59 656	93 089	93 089	76 796	80 943	85 314
<i>Community and public safety</i>		17 707	19 341	19 188	25 902	24 744	24 744	28 656	30 204	31 835
Community and social services		3 473	3 515	1 589	627	44	44	148	156	164
Public safety		14 234	15 826	17 599	25 275	24 700	24 700	28 509	30 048	31 671
<i>Economic and environmental services</i>		136 172	161 456	135 943	162 439	143 342	143 342	155 232	163 615	172 450
Planning and development		17 073	19 473	14 237	33 282	29 630	29 630	23 921	25 213	26 574
Road transport		119 099	141 982	121 706	129 157	113 712	113 712	131 312	138 402	145 876
<i>Trading services</i>		14 549	15 390	19 489	22 639	21 858	21 858	22 643	23 866	25 155
Energy sources		–	–	–	–	–	–	762	803	847
Waste management		14 549	15 390	19 489	22 639	21 858	21 858	21 881	23 063	24 308
Total Expenditure - Functional	3	281 915	318 600	277 351	313 679	330 666	330 666	341 394	359 829	379 260
Surplus/(Deficit) for the year		(19 974)	(62 478)	(21 865)	(23 885)	(105 575)	(105 175)	(56 690)	(59 752)	(62 978)

Explanatory notes to MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms of each of these functional areas which enables the National Treasury to compile 'whole of government' reports.
2. Note the Total Revenue on this table includes capital revenues (Transfers recognised – capital) and so does not balance to the operating revenue shown on Table A4.
3. Note that as a general principle the revenues for the Trading Services should exceed their expenditures. The table highlights that this is not the case for the Waste management function, because about 95% of its revenue is from equitable share. As already noted above, the municipality will be undertaking a detailed study of this function to explore ways of improving efficiencies and provide a basis for re-evaluating the function's tariff structure.
4. Road transport function is showing a deficit between revenue and expenditure because of depreciation amounting to R115 million.

Table 12 MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

Vote Description R thousand	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Revenue by Vote	1									
Vote 1 - Council		–	–	–	14 329	31 422	31 422	30 484	32 130	33 865
Vote 2 - Mayor		–	–	–	15 332	4 005	4 005	3 535	3 726	3 927
Vote 3 - Municipal Manager		–	–	–	13 382	12 731	12 731	12 979	13 680	14 419
Vote 4 - Budget and Treasury Office		–	–	–	59 780	34 183	34 183	43 345	45 686	48 153
Vote 5 - Corporate Services		–	–	–	27 011	26 109	26 109	27 573	29 062	30 632
Vote 6 - Local Economic Planning and Development		–	–	–	17 425	26 941	26 941	20 335	21 433	22 590
Vote 7 - Community and Social Services		–	–	–	53 103	48 145	48 145	38 513	40 593	42 785
Vote 8 - Infrastructure Services		–	–	–	26 821	18 578	18 578	107 939	113 768	119 911
Total Revenue by Vote	2	–	–	–	227 183	202 116	202 116	284 703	300 077	316 282
Expenditure by Vote to be appropriated	1									
Vote 1 - Council		–	–	–	14 329	31 422	31 422	13 425	14 150	14 914
Vote 2 - Mayor		–	–	–	15 332	4 005	4 005	20 272	21 367	22 521
Vote 3 - Municipal Manager		–	–	–	13 382	12 731	12 731	20 987	22 120	23 315
Vote 4 - Budget and Treasury Office		–	–	–	33 316	58 683	58 683	47 918	50 506	53 233
Vote 5 - Corporate Services		–	–	–	26 490	26 109	26 109	21 932	23 116	24 364
Vote 6 - Local Economic Planning and Development		–	–	–	27 108	26 890	26 890	24 932	26 278	27 697
Vote 7 - Community and Social Services		–	–	–	48 540	47 673	47 673	50 635	53 369	56 251
Vote 8 - Infrastructure Services		–	–	–	135 181	124 456	124 456	141 294	148 924	156 965
Total Expenditure by Vote	2	–	–	–	313 679	331 970	331 970	341 394	359 829	379 260
Surplus/(Deficit) for the year	2	–	–	–	(86 496)	(129 854)	(129 854)	(56 690)	(59 752)	(62 978)

Explanatory notes to MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

1. Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of the Municipality. This means it is possible to present the operating surplus or deficit of a vote.

Table 13 MBRR Table A4 - Budgeted Financial Performance (revenue and expenditure)

Description R thousand	Ref	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Revenue By Source											
Property rates	2	31 807	17 115	8 883	21 015	16 601	16 601	–	16 601	17 497	18 442
Service charges - refuse revenue	2	1 158	1 278	1 360	1 377	1 377	1 377	–	1 449	1 527	1 610
Rental of facilities and equipment		46	49	47	47	47	47		38	40	42
Interest earned - external investments		3 559	3 918	5 187	4 279	6 979	6 979		6 300	6 641	6 999
Interest earned - outstanding debtors		838	580	931	599	714	714		402	424	447
Fines, penalties and forfeits		477	256	384	65	974	974		80	85	89
Licences and permits		1 489	1 430	1 273	1 313	1 359	1 359		1 597	1 683	1 774
Agency services		854	1 034	1 099	1 170	1 170	1 170		1 296	1 366	1 440
Transfers and subsidies		182 184	174 668	175 073	171 125	172 407	172 407		200 396	211 217	222 623
Other revenue	2	1 603	2 175	1 401	26 193	346	346	–	1 293	1 363	1 437
Gains on disposal of PPE		(352)		(128)		140	140				
Total Revenue (excluding capital transfers and contributions)		223 664	202 502	195 509	227 183	202 116	202 116	–	229 453	241 844	254 903
Expenditure By Type											
Employee related costs	2	75 695	78 876	81 097	95 075	96 349	96 349	–	116 101	122 371	128 979
Remuneration of councillors		16 411	16 364	17 671	25 626	18 737	18 737		22 176	23 373	24 635
Debt impairment	3	12 393	19 348	(724)	0	24 500	24 500		22 500	23 715	24 996
Depreciation & asset impairment	2	96 373	114 388	102 271	98 503	105 753	105 753	–	115 763	122 014	128 603
Other materials	8	2 985	3 320	3 954		6 704	6 704				
Contracted services		–	–	–	23 957	27 169	27 169	–	7 871	8 296	8 744
Transfers and subsidies		–	–	–	–	–	–	–	2 283	2 406	2 536
Other expenditure	4, 5	–	–	–	70 517	52 757	52 757	–	54 701	57 654	60 768
Loss on disposal of PPE		407	2 066	1 273							
Total Expenditure		204 264	234 360	205 541	313 679	331 970	331 970	–	341 394	359 829	379 260
Surplus/(Deficit)		19 400	(31 859)	(10 032)	(86 496)	(129 854)	(129 854)	–	(111 940)	(117 985)	(124 356)
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)		38 278	53 620	59 977	62 611	53 763	53 763		55 250	58 234	61 378
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)		–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) after capital transfers & contributions	6	57 678	21 761	49 946	(23 885)	(76 091)	(76 091)	–	(56 690)	(59 752)	(62 978)
Taxation											
Surplus/(Deficit) after taxation		57 678	21 761	49 946	(23 885)	(76 091)	(76 091)	–	(56 690)	(59 752)	(62 978)
Attributable to minorities											
Surplus/(Deficit) attributable to municipality		57 678	21 761	49 946	(23 885)	(76 091)	(76 091)	–	(56 690)	(59 752)	(62 978)
Share of surplus/ (deficit) of associate											
Surplus/(Deficit) for the year	7	57 678	21 761	49 946	(23 885)	(76 091)	(76 091)	–	(56 690)	(59 752)	(62 978)

Explanatory notes to Table A4 - Budgeted Financial Performance (revenue and expenditure)

1. Total operating revenue is R229 million in 2019/20 and escalates to R241 million by 2020/21. This represents a year-on-year increase of 5.2 per cent for the 2020/21 financial year and 5.4 per cent for the 2021/22 financial year.
2. Revenue to be generated from property rates is R16 million in the 2019/20 financial year and increases to R17 million by 2020/21 which represents 5.4 per cent of the operating revenue base of the Municipality.
3. Services charges relating to refuse removal constitutes the lowest component of the revenue basket of the Municipality totaling to only R1.4 million for the 2019/20 financial year and increasing by 5.4 per cent by 2020/21.
4. Transfers recognised – operating includes the local government equitable share and other operating grants from national and provincial government. It needs to be noted that in real terms the grants receipts from national government are growing rapidly over the MTREF by 5.4 per cent and 5.4 per cent for the two outer years.

Figure 2 Expenditure by major type

5. Employee related costs are the main cost drivers within the municipality and alternative operational gains and efficiencies will have to be identified to lessen the impact of wage increases in future years.

Table 14 MBRR Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

Vote Description R thousand	Ref	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
Capital Expenditure - Functional											
<i>Governance and administration</i>		7,099	111	1,729	3,144	2,744	2,744	-	2,000	2,108	2,222
Executive and council		34		48	60	60	60				
Finance and administration		7,066	111	1,681	3,084	2,684	2,684		2,000	2,108	2,222
Internal audit											
<i>Community and public safety</i>		-	73	555	60	60	60	-	1,700	1,792	1,889
Community and social services									1,500	1,581	1,666
Sport and recreation											
Public safety			73	555	60	60	60		200	211	222
Housing											
Health											
<i>Economic and environmental services</i>		41,222	52,538	60,566	57,107	93,618	93,618	-	63,498	66,927	70,541
Planning and development		9,326	2,305	1,764	4,315	5,215	5,215		9,814	10,344	10,903
Road transport		31,896	50,233	58,803	52,792	88,403	88,403		53,684	56,583	59,639
Environmental protection											
<i>Trading services</i>		-	90	155	2,300	9,657	9,657	-	1,000	1,054	1,111
Energy sources						8,357	8,357				
Water management											
Waste water management			90	155	2,300	1,300	1,300		1,000	1,054	1,111
Waste management											
<i>Other</i>											
Total Capital Expenditure - Functional	3	48,321	52,811	63,005	62,611	106,080	106,080	-	68,198	71,881	75,763
Funded by:											
National Government		48,321	52,811	63,005	43,394	53,763	53,763		55,250	58,234	61,378
Provincial Government											
District Municipality											
Other transfers and grants											
Transfers recognised - capital	4	48,321	52,811	63,005	43,394	53,763	53,763	-	55,250	58,234	61,378
Borrowing	6										
Internally generated funds					19,217	52,317	52,317		12,948	13,648	14,385
Total Capital Funding	7	48,321	52,811	63,005	62,611	106,080	106,080	-	68,198	71,881	75,763

Explanatory notes to Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

1. Table A5 is a breakdown of the capital program in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
2. The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations.

3. Single-year capital expenditure has been appropriated at R79 million for the 2019/20 financial year and remains relatively constant over the MTREF at levels of R84 million and R88 million respectively for the two outer years.
4. Unlike multi-year capital appropriations, single-year appropriations relate to expenditure that will be incurred in the specific budget year such as the procurement of vehicles and specialized tools and equipment. The budget appropriations for the two outer years are indicative allocations based on the departmental business plans as informed by the IDP and will be reviewed on an annual basis to assess the relevance of the expenditure in relation to the strategic objectives and service delivery imperatives of the Municipality. For the purpose of funding assessment of the MTREF, these appropriations have been included but no commitments will be incurred against single-year appropriations for the two outer-years.
5. The capital program is funded from capital transfers and internally generated funds.

Project Name	Amount
Rehabilitation of sportsfield - Tsolo sport field	11,839,789.20
Rehabilitation of sportsfield -Qumbu sport field	12,473,840.03
Rehabilitation of sportsfield -Mvumelwano sport field	3,544,218.00
Planning for Surfacing :street upgrade - Qumbu streets upgrade	300,000.00
Surfacing of 2.73 km street upgrade - Tsolo streets upgrade	300,000.00
N2 Newrest to Dilizintaba 10,5 km	1,222,450.00
Gravel Access Road of 5.39 km - Kimbili1-Kimbili2	214,463.52
Gravel Access Road of 5.39 km - T 162 Via Stopiyini to Hlabathi	1,665,865.00
Dumba to Tina Falls Access Road	6,290,295.60
Gravel Access Road of Mdeni Access Road	4,183,568.28
Gravel Access Road of Machibini to Dumaneni	6,649,999.97
Rehabilitation of Nyanisweni access road 5,2km	1,250,000.00
Rehabilitation of Kwamgongo access road 6,1 km	1,250,000.00
Rehabilitation of Ngxakolo access road 7,8km	1,250,000.00
Relocation of Qumbu Pound	1,500,000.00
Grass cutting machines	50,000.00
Completion of Toleni CDC (Ward 25)	2,100,000.00
Construction of a steel warehouse for brick making incubator	800,000.00
Constructon of a veiwing deck (uphill)	250,000.00
construction of 3 family chalets at Tsitsa falls	3,007,000.00
Purchase of Tsolo Hawker Stalls	1,250,000.00
Construct 6 ablutions at Mhlontlo Nature Reserve	200,000.00
Construct 6 ablutions at Bajodini Horse Racing Course	200,000.00
Purchase of two tractors and implements	2,007,000.00
Completion of Qanda coffin manufacturing (Ward 8)	472,000.00
Installation of electronic document management system (EDMS).	2,000,000.00
Purchase of tools and equipment	60,000.00
Asset acquisition (store room)	200,000.00

Electrification of Rhwaxeni	1,232,000.00
Electrification of Mangxamfu	3,345,400.00
Electrification of Hlabathi	4,222,000.00
Electrification of Makhothi	2,708,600.00
Establishment of Tsolo Transfer Station	3,400,000.00
	79,724,088.60

6. Table 15 MBRR Table A6 - Budgeted Financial Position

Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousand											
ASSETS											
Current assets											
Cash		3 359	5 437	9 170					50 139	52 847	55 701
Call investment deposits	1	22 567	31 569	70 819	36 997	25 055	25 055	–	50 139	52 847	55 701
Consumer debtors	1	19 793	12 005	4 911	28 640	16 485	16 485	–	27 098	104 553	110 199
Other debtors		2 856	6 926	8 300		598	598		5 604	5 907	6 226
Current portion of long-term receivables					354						
Inventory	2	5 229	6 236	6 186	5 229	6 186	6 186		6 186	6 520	6 872
Total current assets		53 803	62 173	99 386	71 220	48 323	48 323	–	139 167	222 674	234 698
Non current assets											
Long-term receivables											
Investments											
Investment property		13 189	12 032	12 032	13 435	23 290	23 290		23 290	24 548	25 873
Investment in Associate											
Property, plant and equipment	3	634 447	572 494	531 766	505 467	456 127	456 127	–	554 987	584 956	616 544
Biological											
Intangible		491	349	349	349	239	239		1 854	1 954	2 060
Other non-current assets		211	211	211		211	211		211	222	234
Total non current assets		647 635	584 526	544 500	519 462	479 977	479 767	449	578 726	609 504	644 482
TOTAL ASSETS		701 439	646 699	643 886	590 682	528 301	528 090	449	717 893	832 178	879 180
LIABILITIES											
Current liabilities											
Bank overdraft	-										
Borrowing	4	–	–	–	–	–	–	–	–	–	–
Consumer deposits											
Trade and other payables	4	9 450	7 859	23 810	8 289	12 731	12 731	–	8 390	8 843	9 321
Provisions		11 393	19 838	21 751	25 798			11 415	37 751	39 790	41 938
Total current liabilities		20 843	27 697	45 561	34 086	12 731	12 731	11 415	46 141	48 633	51 259
Non current liabilities											
Borrowing		–	–	–	–	–	–	–	–	–	–
Provisions		5 684	7 051	7 738	–	40 871	40 871	–	29 456	31 047	32 723
Total non current liabilities		5 684	7 051	7 738	–	40 871	40 871	–	29 456	31 047	32 723
TOTAL LIABILITIES		26 527	34 748	53 299	34 086	53 601	53 601	11 415	75 597	79 680	83 982
NET ASSETS	5	674 912	611 951	590 587	556 596	474 699	474 489	(10 965)	642 296	752 498	795 198
COMMUNITY WEALTH/EQUITY											
Accumulated Surplus/(Deficit)		674 912	611 951	590 587	556 596	474 699	474 489	(10 965)	642 296	752 498	795 198
Reserves	4	–	–	–	–	–	–	–	–	–	–
TOTAL COMMUNITY WEALTH/EQUITY	5	674 912	611 951	590 587	556 596	474 699	474 489	(10 965)	642 296	752 498	795 198

Explanatory notes to Table A6 - Budgeted Financial Position

1. Table A6 is consistent with international standards of good financial management practice, and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).
2. This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as “accounting” Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.
3. Table A6 is supported by an extensive table of notes (SA3 which can be found on page 102) providing a detailed analysis of the major components of a number of items, including:
 - Call investments deposits;
 - Consumer debtors;
 - Property, plant and equipment;
 - Trade and other payables;
 - Provisions non-current;
 - Changes in net assets; and
 - Reserves
4. The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.
5. Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition, the funding compliance assessment is informed directly by forecasting the statement of financial position.

Table 16 MBRR Table A7 - Budgeted Cash Flow Statement

Description R thousand	Ref	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
CASH FLOW FROM OPERATING ACTIVITIES											
Receipts											
Property rates		2,378	1,529	15,326	21,015	10,413	10,413		6,601	6,957	7,333
Service charges		972	1,245	1,360	1,377	587	587		1,359	1,432	1,510
Other revenue		4,145	4,943	4,075	28,788	4,036	4,036		4,305	4,538	4,783
Government - operating	1	182,185	174,668	172,110	171,125	172,407	172,407		200,396	211,217	222,623
Government - capital	1	38,278	53,620	59,977	62,611	53,763	53,763		-	-	-
Interest		4,397	4,498	6,117	4,878	7,239	7,239		6,702	7,064	7,446
Dividends					-				-	-	-
Payments											
Suppliers and employees		(148,209)	(153,022)	(152,937)	(191,218)	(201,557)	(201,557)		(192,977)	(203,398)	(214,381)
Finance charges		(258)	(357)	(341)	(0)	(0)	(0)		(22,500)	(23,715)	(24,996)
Transfers and Grants	1	(25,877)	(21,683)		(23,957)	(160)	(160)		(10,153)	(10,702)	(11,280)
NET CASH FROM/(USED) OPERATING ACTIVITIES		58,010	65,441	105,688	74,619	46,729	46,729	-	(6,267)	(6,606)	(6,962)
CASH FLOWS FROM INVESTING ACTIVITIES											
Receipts											
Proceeds on disposal of PPE		28		350	-				-	-	-
Decrease (Increase) in non-current debtors					-				-	-	-
Decrease (increase) other non-current receivables					-				-	-	-
Decrease (increase) in non-current investments					-	52,316	52,316		55,250	58,234	61,378
Payments											
Capital assets		(47,489)	(54,359)	(63,055)	(62,611)	(106,080)	(106,080)		(68,198)	(71,881)	(75,763)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(47,461)	(54,359)	(62,705)	(62,611)	(53,764)	(53,764)	-	(12,948)	(13,648)	(14,385)
CASH FLOWS FROM FINANCING ACTIVITIES											
Receipts											
Short term loans									-	-	-
Borrowing long term/refinancing									-	-	-
Increase (decrease) in consumer deposits									-	-	-
Payments											
Repayment of borrowing									-	-	-
NET CASH FROM/(USED) FINANCING ACTIVITIES		-	-	-	-	-	-	-	-	-	-
NET INCREASE/ (DECREASE) IN CASH HELD		10,549	11,082	42,983	12,007	(7,035)	(7,035)	-	(19,216)	(20,253)	(21,347)
Cash/cash equivalents at the year begin:	2	15,377	25,926	37,006	79,990	91,997	84,962		77,927	58,711	38,458
Cash/cash equivalents at the year end:	2	25,926	37,008	79,990	91,997	84,962	77,927	-	58,711	38,458	17,111

Explanatory notes to Table A7 - Budgeted Cash Flow Statement

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.
2. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.

Table 17 MBRR Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

Description R thousand	Ref	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<u>Cash and investments available</u>											
Cash/cash equivalents at the year end	1	25,926	37,008	79,990	91,997	84,962	77,927	–	68,801	59,183	49,045
Other current investments > 90 days		0	(1)	(0)	(55,000)	(59,907)	(52,872)	–	7,003	18,008	29,606
Non current assets - Investments	1	–	–	–	–	–	–	–	–	–	–
Cash and investments available:		25,926	37,006	79,989	36,997	25,055	25,055	–	75,805	77,191	78,652
<u>Application of cash and investments</u>											
Unspent conditional transfers		–	–	–	2,256	–	–	–	–	–	–
Unspent borrowing		–	–	–	–	–	–	–	–	–	–
Statutory requirements	2										
Other working capital requirements	3	5,015	1,751	5,974	(22,276)	1,360	1,360	–	(23,735)	(99,666)	(105,048)
Other provisions											
Long term investments committed	4	–	–	–	–	–	–	–	–	–	–
Reserves to be backed by cash/investments	5								63,580	67,014	70,632
Total Application of cash and investments:		5,015	1,751	5,974	(20,020)	1,360	1,360	–	39,845	(32,652)	(34,416)
Surplus(shortfall)		20,911	35,256	74,015	57,018	23,696	23,696	–	35,959	109,843	113,067

Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded".
4. Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.

5. Considering the requirements of section 18 of the MFMA, it can be concluded that the adopted 2019/1 MTREF was funded owing to the significant deficit.
6. As part of the budgeting and planning guidelines that informed the compilation of the 2019/19 MTREF the end objective of the medium-term framework was to ensure the budget is funded aligned to section 18 of the MFMA.

Table 18 MBRR Table A9 - Asset Management

Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousand										
CAPITAL EXPENDITURE										
<u>Total New Assets</u>	1	48 321	52 700	63 005	48 611	–	–	79 724	84 029	88 567
<i>Roads Infrastructure</i>		35 957	33 985	35 257	17 692	–	–	25 827	27 221	28 691
<i>Electrical Infrastructure</i>		–	7 762	3 020	–	–	–	11 508	12 129	12 784
<i>Solid Waste Infrastructure</i>		–	90	–	1 000	–	–	1 000	1 054	1 111
Infrastructure		35 957	41 836	38 277	18 692	–	–	38 335	40 405	42 587
Community Facilities		5 208	10 864	22 086	12 065	–	–	7 807	8 229	8 673
Sport and Recreation Facilities		–	–	–	11 000	–	–	27 858	29 362	30 948
Community Assets		5 208	10 864	22 086	23 065	–	–	35 665	37 591	39 621
Heritage Assets		–	–	–	250	–	–	–	–	–
Investment properties		–	–	–	–	–	–	–	–	–
Operational Buildings		–	–	–	2 400	–	–	1 700	1 792	1 889
Housing		–	–	–	–	–	–	–	–	–
Other Assets		–	–	–	2 400	–	–	1 700	1 792	1 889
Intangible Assets		–	–	–	–	–	–	–	–	–
Computer Equipment		–	–	–	1 100	–	–	2 018	2 127	2 241
Furniture and Office Equipment		–	–	–	644	–	–	–	–	–
Machinery and Equipment		7 156	–	2 641	900	–	–	–	–	–
Transport Assets		–	–	–	1 560	–	–	2 007	2 115	2 230
<u>Total Capital Expenditure</u>	4	48 321	52 700	63 005	48 611	–	–	79 724	84 029	88 567
<i>Roads Infrastructure</i>		35 957	33 985	35 257	17 692	–	–	25 827	27 221	28 691
<i>Electrical Infrastructure</i>		–	7 762	3 020	–	–	–	11 508	12 129	12 784
<i>Solid Waste Infrastructure</i>		–	90	–	1 000	–	–	1 000	1 054	1 111
Infrastructure		35 957	41 836	38 277	18 692	–	–	38 335	40 405	42 587
Community Facilities		5 208	10 864	22 086	12 065	–	–	7 807	8 229	8 673
Sport and Recreation Facilities		–	–	–	11 000	–	–	27 858	29 362	30 948
Community Assets		5 208	10 864	22 086	23 065	–	–	35 665	37 591	39 621
Operational Buildings		–	–	–	2 400	–	–	1 700	1 792	1 889
Other Assets		–	–	–	2 400	–	–	1 700	1 792	1 889
Biological or Cultivated Assets		–	–	–	–	–	–	–	–	–

Servitudes		-	-	-	-	-	-	-	-	-
Licences and Rights		-	-	-	-	-	-	-	-	-
Intangible Assets		-	-	-	-	-	-	-	-	-
Computer Equipment		-	-	-	1 100	-	-	2 018	2 127	2 241
Furniture and Office Equipment		-	-	-	644	-	-	-	-	-
Machinery and Equipment		7 156	-	2 641	900	-	-	-	-	-
Transport Assets		-	-	-	1 560	-	-	2 007	2 115	2 230
Land		-	-	-	-	-	-	-	-	-
Zoo's, Marine and Non-biological Animals		-	-	-	-	-	-	-	-	-
TOTAL CAPITAL EXPENDITURE - Asset class		48 321	52 700	63 005	48 611	-	-	79 724	84 029	88 567
ASSET REGISTER SUMMARY - PPE (WDV)	5	510 699	454 722	555 506	555 506	-	-	578 726	609 978	642 916
<i>Roads Infrastructure</i>		510 699	446 960	324 470	324 470			305 733	322 243	339 644
<i>Storm water Infrastructure</i>										
<i>Electrical Infrastructure</i>			7 762	17 155	17 155			17 155	18 081	19 057
<i>Water Supply Infrastructure</i>										
<i>Sanitation Infrastructure</i>				5 203	5 203			5 203	5 484	5 780
<i>Solid Waste Infrastructure</i>				47 815	47 815			47 815	50 397	53 118
<i>Rail Infrastructure</i>										
<i>Coastal Infrastructure</i>										
<i>Information and Communication Infrastructure</i>										
Infrastructure		510 699	454 722	394 642	394 642	-	-	375 906	396 205	417 600
Community Assets				87 582	87 582			125 916	132 716	139 883
Heritage Assets				211	211			211	222	234
								-	-	-
								-	-	-
Investment properties				23 290	23 290			23 290	24 548	25 873
								-	-	-
								-	-	-
Other Assets				49 543	49 543			51 550	54 333	57 267
Biological or Cultivated Assets										
Intangible Assets				239	239			1 854	1 954	2 060
Computer Equipment										
Furniture and Office Equipment										
Machinery and Equipment										
Transport Assets										
Land										

Zoo's, Marine and Non-biological Animals						-				
TOTAL ASSET REGISTER SUMMARY - PPE (WDV)	5	510 699	454 722	555 506	555 506	-	-	578 726	609 978	642 916
EXPENDITURE OTHER ITEMS		-	-	-	-	-	-	121 691	128 262	135 189
<u>Depreciation</u>	7	-	-	-	-	-	-	115 763	122 014	128 603
<u>Repairs and Maintenance by Asset Class</u>	3	-	-	-	-	-	-	5 928	6 248	6 585
<i>Electrical Infrastructure</i>		-	-	-	-	-	-	2 964	3 124	3 293
Infrastructure		-	-	-	-	-	-	2 964	3 124	3 293
Investment properties		-	-	-	-	-	-	-	-	-
Operational Buildings		-	-	-	-	-	-	2 133	2 248	2 370
Housing		-	-	-	-	-	-	-	-	-
Other Assets		-	-	-	-	-	-	2 133	2 248	2 370
Licences and Rights		-	-	-	-	-	-	401	423	445
Intangible Assets		-	-	-	-	-	-	401	423	445
Furniture and Office Equipment		-	-	-	-	-	-	20	21	22
Transport Assets		-	-	-	-	-	-	409	431	455
TOTAL EXPENDITURE OTHER ITEMS		-	-	-	-	-	-	121 691	128 262	135 189

Explanatory notes to Table A9 - Asset Management

1. Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.
2. National Treasury has recommended that municipalities should allocate at least 40 per cent of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be 8 per cent of PPE. The Municipality does not meet both of these recommendations.

Table 19 MBRR Table A10 - Basic Service Delivery Measurement

Description	Ref	2014/15	2015/16	2016/17	Current Year 2017/18			2019/19 Medium Term Revenue & Expenditure Framework		
		Outcome	Outcome	Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Household service targets	1									
<u>Refuse:</u>										
Removed at least once a week		-	-	-	-	-	-	2 500	2 500	2 500
<i>Minimum Service Level and Above sub-total</i>		-	-	-	-	-	-	2 500	2 500	2 500
Removed less frequently than once a week		-	-	-	-	-	-	1 080	1 080	1 080
Using own refuse dump		-	-	-	-	-	-	34 600	34 600	34 600
<i>Below Minimum Service Level sub-total</i>		-	-	-	-	-	-	35 680	35 680	35 680
Total number of households	5	-	-	-	-	-	-	38 180	38 180	38 180
Households receiving Free Basic Service	7									
Electricity/other energy (50kwh per household per month)		-	-	-	-	-	-	5 829	5 829	5 829
Refuse (removed at least once a week)		-	-	-	-	-	-	2 500	2 500	2 500
Cost of Free Basic Services provided - Formal Settlements (R'000)	8									
Refuse (removed once a week for indigent households)		-	-	-	-	-	-	-	-	-
Cost of Free Basic Services provided - Informal Formal Settlements (R'000)		-	-	-	-	-	-	8 936	9 417	9 933
Total cost of FBS provided		-	-	-	-	-	-	8 936	9 417	9 933
Highest level of free service provided per household										
Property rates (R value threshold)								305 647	322 152	339 870
Electricity (kwh per household per month)								50	50	50
Refuse (average litres per week)								400	400	400
Revenue cost of subsidised services provided (R'000)	9									
Property rates (tariff adjustment) (impermissible values per section 17 of MPRA)								3 211	3 211	3 211
Total revenue cost of subsidised services provided		-	-	-	-	-	-	3 211	3 211	3 211

Explanatory notes to Table A10 - Basic Service Delivery Measurement

1. The budget provides for 48 000 households to be registered as indigent in 2019/20, and therefore entitled to receiving Free Basic Services. The number is set to increase to 55 000 households given the rapid rate of unemployment and grants dependency by the Mhlontlo community.

2. It is anticipated that these Free Basic Services will cost the municipality R8 million in 2019/20, increasing to R9 million in 2019/20. This is covered by the municipality's equitable share allocation from national government.

Part 2 – Supporting Documentation

2.1 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition, Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the MMC for Finance.

The primary aims of the Budget Steering Committee is to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the Municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

2.1.1 Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2010) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required the IDP and budget time schedule on 25 August 2018. Key dates applicable to the process were:

- **August 2018** – Joint strategic planning session of the Mayoral Committee and Executive Management. Aim: to review past performance trends of the capital and operating budgets, the economic realities and to set the prioritisation criteria for the compilation of the 2019/19 MTREF;
- **November 2018**– Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;
- **3 to 7 January 2019** - Review of the financial strategy and key economic and financial planning assumptions by the Budget Steering Committee. This included financial forecasting and scenario considerations;
- **January 2019** – Multi-year budget proposals are submitted to the Mayoral Committee for endorsement;
- **25 January 2019** - Council considers the 2019/20 Mid-year Review and Adjustments Budget;

- **February 2019** - Recommendations of the Executive Committee are communicated to the Budget Steering Committee, and on to the respective departments. The draft 2019/20 MTREF is revised accordingly;
- **29 March 2019** - Tabling in Council of the draft 2019/20 IDP and 2019/19 MTREF for public consultation;
- **April 2019** – Public consultation;
- **6 May 2019** - Closing date for written comments;
- **6 to 21 May 2019** – finalisation of the 2019/2 IDP and 2019/20 MTREF, taking into consideration comments received from the public, comments from National Treasury, and updated information from the most recent Division of Revenue Bill and financial framework; and
- **31 May 2019** - Tabling of the 2019/20 MTREF before Council for consideration and approval.

There were no deviations from the key dates set out in the Budget Time Schedule tabled in Council.

2.1.2 IDP and Service Delivery and Budget Implementation Plan

This is the third review of the IDP as adopted by Council in March 2019. It started in August 2018 after the tabling of the IDP Process Plan and the Budget Time Schedule for the 2019/20 MTREF in August.

The Municipality's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan. The Process Plan applicable to the fourth revision cycle included the following key IDP processes and deliverables:

- Registration of community needs;
- Compilation of departmental business plans including key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the SDBIP, and
- The review of the performance management and monitoring processes.

The IDP has been taken into a business and financial planning process leading up to the 2019/20 MTREF, based on the approved 2018/19 MTREF, Mid-year Review and adjustments budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2019/20 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2018/19 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

2.1.3 Financial Modelling and Key Planning Drivers

As part of the compilation of the 2019/20 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2019/20 MTREF:

- Municipality growth
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2018/19 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- Loan and investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 94 has been taken into consideration in the planning and prioritisation process.

2.1.4 Community Consultation

The draft 2019/20 MTREF as tabled before Council on 29 March 2019 for community consultation will be published on the municipality's website, and hard copies will be made available at municipal offices, municipal notice boards and libraries.

All documents in the appropriate format (electronic and printed) were provided to National Treasury, and other national and provincial departments in accordance with section 23 of the MFMA, to provide an opportunity for them to make inputs.

Ward Committees were utilised to facilitate the community consultation process from 23 to 25 April 2019, and included nine public briefing sessions. The applicable dates and venues will be published in all the local newspapers and on average attendance of 200 was recorded per meeting. This is up on the previous year's process. This can be attributed to the additional initiatives that were launched during the consultation process, including the specific targeting of ratepayer associations. Individual sessions were scheduled with organised business and imbizo's were held to further ensure transparency and interaction.

Submissions received during the community consultation process and additional information regarding revenue and expenditure and individual capital projects were addressed, and where relevant considered as part of the finalisation of the 2019/20 MTREF. Feedback and responses to the submissions received are available on request. The following are some of the issues and concerns raised as well as comments received during the consultation process:

- Capital expenditure is not allocated to the areas in the same ratio as the income derived from those areas. This is a normal practice in a collective taxation environment. The Municipality is responsible for managing the equitable use of resources to ensure that

- constitutional imperative to progressively improve basic services in undeveloped areas is realized in a sustainable manner over a reasonable period of time;
- Several complaints were received regarding poor service delivery, especially waste removal backlogs and the state of road infrastructure;
 - Poor performance of contractors relating to infrastructure development and maintenance especially in the areas of road construction and maintenance were raised;
 - Remuneration packages of council officials were criticized as being very high,
 - Pensioners cannot afford the tariff increases due to low annual pension increases; and
 - During the community consultation process large sections of the community made it clear that they are not in favour of any further tariff increases to fund additional budget requests. They indicated that the municipality must do more to ensure efficiencies and value for money.

Significant changes effected in the final 2019/20 MTREF compared to the draft 2019/20 MTREF that was tabled for community consultation, include:

2.2 Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the Municipality, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the Municipality strategically complies with the key national and provincial priorities.

The aim of this revision cycle was to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the Municipality's response to these requirements.

The national and provincial priorities, policies and strategies of importance include amongst others:

- Green Paper on National Strategic Planning of 2009;
- Government Programme of Action;
- Development Facilitation Act of 1995;
- Provincial Growth and Development Strategy (GGDS);
- National and Provincial spatial development perspectives;

- Relevant sector plans such as transportation, legislation and policy;
- National Key Performance Indicators (NKPis);
- Accelerated and Shared Growth Initiative (ASGISA);
- National 2014 Vision;
- National Spatial Development Perspective (NSDP) and
- The National Priority Outcomes.

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP. The following table highlights the IDP's five strategic objectives for the 2019/19 MTREF and further planning refinements that have directly informed the compilation of the budget:

Table 20 IDP Strategic Objectives

In order to ensure integrated and focused service delivery between all spheres of government it was important for the Municipality to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

Local priorities were identified as part of the IDP review process which is directly aligned to that of the national and provincial priorities. The key performance areas can be summarised as follows against the five strategic objectives:

1. Provision of quality basic services and infrastructure which includes, amongst others:
 - Provide waste removal;
 - Provide roads and storm water;
 - Provide Municipality planning services; and
 - Maintaining the infrastructure of the Municipality.
2. Economic growth and development that leads to sustainable job creation by:
 - Ensuring there is a clear structural plan for the Municipality;
 - Ensuring planning processes function in accordance with set timeframes;
 - Facilitating the use of labour intensive approaches in the delivery of services and the building of infrastructure.
- 3.1 Fight poverty and build clean, healthy, safe and sustainable communities:
 - Effective implementation of the Indigent Policy;
 - Working with the provincial department of health to provide primary health care services;
 - Extending waste removal services and ensuring effective Municipality cleansing;
 - Ensuring all waste water treatment works are operating optimally;
 - Working with strategic partners such as SAPS to address crime;
 - Ensuring safe working environments by effective enforcement of building and health regulations;
 - Promote viable, sustainable communities through proper zoning; and
 - Promote environmental sustainability by protecting wetlands and key open spaces.

3.2 Integrated Social Services for empowered and sustainable communities

- Work with provincial departments to ensure the development of community infrastructure such as schools and clinics is properly co-ordinated with the informal settlements upgrade programme

4. Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service by:

- Optimising effective community participation in the ward committee system; and
- Implementing Batho Pele in the revenue management strategy.

5.1 Promote sound governance through:

- Publishing the outcomes of all tender processes on the municipal website

5.2 Ensure financial sustainability through:

- Reviewing the use of contracted services
- Continuing to implement the infrastructure renewal strategy and the repairs and maintenance plan

In line with the MSA, the IDP constitutes a single, inclusive strategic plan for the Municipality. The five-year programme responds to the development challenges and opportunities faced by the Municipality by identifying the key performance areas to achieve the five the strategic objectives mentioned above.

In addition to the five-year IDP, the Municipality undertakes an extensive planning and developmental strategy which primarily focuses on a longer-term horizon; 15 to 20 years. This process is aimed at influencing the development path by proposing a substantial programme of public-led investment to restructure current patterns of settlement, activity and access to resources in the Municipality so as to promote greater equity and enhanced opportunity. The strategy specifically targets future developmental opportunities in traditional dormitory settlements. It provides direction to the Municipality's IDP, associated sectoral plans and strategies, and the allocation of resources of the Municipality and other service delivery partners.

This development strategy introduces important policy shifts which have further been translated into seven strategic focus areas/objectives as outlined below:

- Developing dormant areas;
- Enforcing hard development lines – so as to direct private investment;
- Maintaining existing urban areas;
- Strengthening key economic clusters;
- Building social cohesion;
- Strong developmental initiatives in relation to the municipal institution as a whole; and
- Sound financial fundamentals.

Lessons learned with previous IDP revision and planning cycles as well as changing environments were taken into consideration in the compilation of the fourth revised IDP, including:

- Strengthening the analysis and strategic planning processes of the Municipality;
- Initiating zonal planning processes that involve the communities in the analysis and planning processes. More emphasis was placed on area based interventions, within the overall holistic framework;

- Ensuring better coordination through a programmatic approach and attempting to focus the budgeting process through planning interventions; and
- Strengthening performance management and monitoring systems in ensuring the objectives and deliverables are achieved.

The 2019/20 MTREF has therefore been directly informed by the IDP revision process and the following tables provide a reconciliation between the IDP strategic objectives and operating revenue, operating expenditure and capital expenditure.

Table 21 MBRR Table SA4 - Reconciliation between the IDP strategic objectives and budgeted revenue

Strategic Objective	Goal	Goal Code	Ref	2014/15	2015/16	2016/17	Current Year 2017/18			2019/19 Medium Term Revenue & Expenditure Framework		
				Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/19	Budget Year +1 2019/20	Budget Year +2 2020/21
R thousand												
Basic Service Delivery			2				79 930			50 837	53 582	56 529
Cemetery Management							377			10		
Good Governance and Public participation							14 585			43 044	45 368	47 863
Institutional Capacity Building and Transformation							128 398			27 011	28 469	30 035
Local economic development							8 157			17 425	18 366	19 376
Pound Management							934			4 901	5 166	5 450
Social Services and Infrastructure							10 990			24 176	25 482	26 883
Sound Financial Management							13 943			59 780	63 008	66 473
Sporting Facilities							1 020					
Waste Management							5 039					
Allocations to other priorities			2									
Total Revenue (excluding capital transfers and contributions)			1	–	–	–	263 371	–	–	227 183	239 441	252 610

Table 22 MBRR Table SA5 - Reconciliation between the IDP strategic objectives and budgeted operating expenditure

Strategic Objective	Goal	Goal Code	Ref	2014/15	2015/16	2016/17	Current Year 2017/18			2019/19 Medium Term Revenue & Expenditure Framework		
				Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/19	Budget Year +1 2019/20	Budget Year +2 2020/21
R thousand												
Basic Service Delivery							37 430			135 181	142 481	150 317
Cemetery Management							377			627	661	697
Good Governance and Public participation							14 585			47 687	50 262	53 027
Institutional Capacity Building and Transformation							127 272			26 490	27 920	29 456
Local economic development							8 157			14 512	15 296	16 137
Pound Management							934			3 992	4 208	4 439
Social Services and Infrastructure							10 601			21 283	22 432	23 666
Sound Financial Management							13 943			33 316	35 115	37 046
Sporting Facilities							1 020				–	–
Waste Management							5 039			22 639	23 861	25 173
Human Settlements										7 953	8 383	8 844
Total Expenditure			1	–	–	–	219 357	–	–	313 679	330 618	348 802

Table 23 MBRR Table SA7 - Reconciliation between the IDP strategic objectives and budgeted capital expenditure

Strategic Objective	Goal	Goal Code	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
				Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousand												
Basic Service Delivery		A	3	41,222	52,750	58,803	52,792	96,761	96,761	53,684	56,583	59,639
Cemetery Management		B		–	–	–	–	–	–	–	–	–
Good Governance and Public participation		C		34	240	48	60	60	60	–	–	–
Institutional Capacity Building and Transformation		D		–	229	1,681	1,524	2,124	2,124	2,000	2,108	2,222
Local economic development		E		–	–	1,764	4,315	4,215	4,215	9,814	10,344	10,903
Pound Management		F		–	–	–	–	–	–	1,500	1,581	1,666
Social Services and Infrastructure		G		–	185	555	60	60	60	200	211	222
Sound Financial Management		H		7,066	2,581	–	1,560	1,560	1,560	–	–	–
Waste Management		J		–	–	155	2,300	1,300	1,300	1,000	1,054	1,111
Allocations to other priorities			1									
Total Capital Expenditure			1	48,321	55,985	63,005	62,611	106,080	106,080	68,198	71,881	75,763

2.3 Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the Municipality has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assesses and reviews organisational performance which in turn is directly linked to individual employee's performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance. Although performance information is reported publicly during the last stage, the performance information process begins when policies are being developed, and continues through each of the planning, budgeting, implementation and reporting stages. The planning, budgeting and reporting cycle can be graphically illustrated as follows:

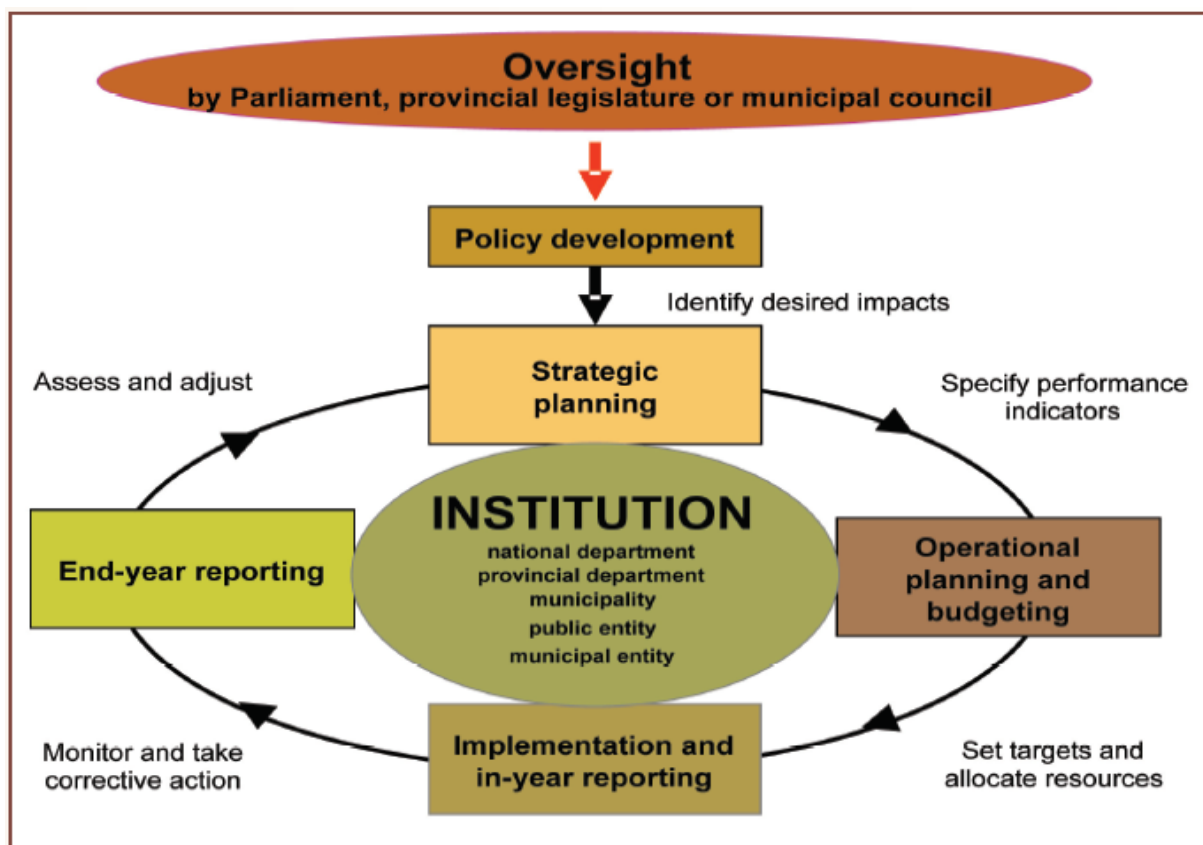


Figure 3 Planning, budgeting and reporting cycle

The performance of the Municipality relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The Municipality therefore has adopted one integrated performance management system which encompasses:

- Planning (setting goals, objectives, targets and benchmarks);
- Monitoring (regular monitoring and checking on the progress against plan);
- Measurement (indicators of success);
- Review (identifying areas requiring change and improvement);
- Reporting (what information, to whom, from whom, how often and for what purpose); and
- Improvement (making changes where necessary).

The performance information concepts used by the Municipality in its integrated performance management system are aligned to the **Framework of Managing Programme Performance Information** issued by the National Treasury:

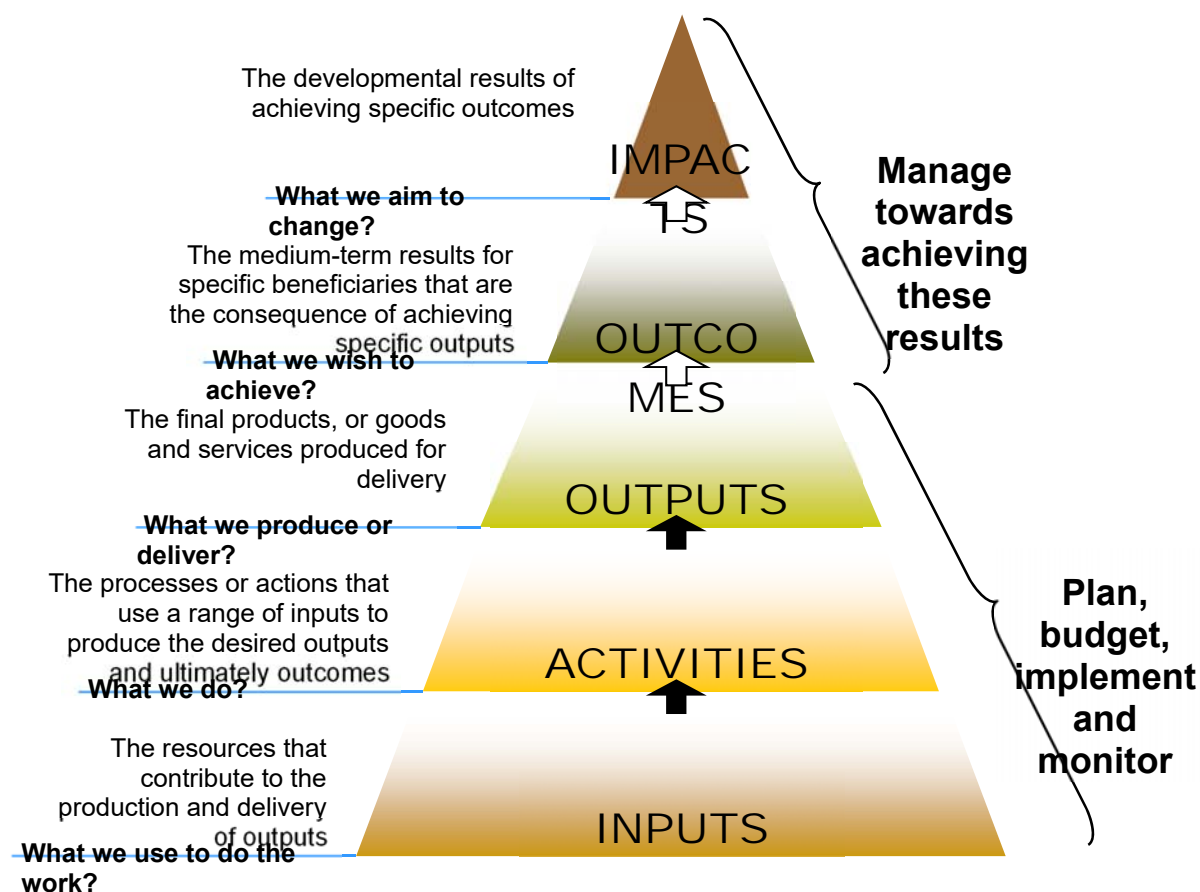


Table 24 MBRR Table SA7 - Measurable performance objectives

The following table sets out the municipalities main performance objectives and benchmarks for the 2019/19 MTREF.

Table 25 MBRR Table SA8 - Performance indicators and benchmarks

EC156 Mhlontlo - Supporting Table SA8
Performance indicators and benchmarks

Description of financial indicator	Basis of calculation	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<u>Borrowing Management</u>											
Credit Rating											
Capital Charges to Operating Expenditure	Interest & Principal Paid /Operating Expenditure	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Capital Charges to Own Revenue	Finance charges & Repayment of borrowing /Own Revenue	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Borrowed funding of 'own' capital expenditure	Borrowing/Capital expenditure excl. transfers and grants and contributions	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<u>Safety of Capital Gearing</u>											
Long Term Borrowing/ Funds & Reserves		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<u>Liquidity</u>											
Current Ratio	Current assets/current liabilities	2.6	2.2	2.2	2.1	3.8	3.8	–	2.5	4.0	3.9
Current Ratio adjusted for aged debtors	Current assets less debtors > 90 days/current liabilities	2.6	2.2	1.2	0.8	0.4	0.4	–	1.7	3.2	3.1
Liquidity Ratio	Monetary Assets/Current Liabilities	1.2	1.3	1.8	1.1	2.0	2.0	–	1.6	1.6	1.5
<u>Revenue Management</u>											
Annual Debtors Collection Rate (Payment Level %)	Last 12 Mths Receipts/Last 12 Mths Billing		10.2%	15.1%	162.9%	100.0%	61.2%	61.2%	0.0%	44.1%	44.1%
Current Debtors Collection Rate (Cash receipts % of Ratepayer & Other revenue)		10.2%	15.1%	162.9%	100.0%	61.2%	61.2%	0.0%	44.1%	44.1%	44.1%
Outstanding Debtors to Revenue	Total Outstanding Debtors to Annual Revenue	10.1%	9.3%	6.8%	12.8%	8.5%	8.5%	0.0%	14.3%	45.7%	45.7%
Longstanding Debtors Recovered	Debtors > 12 Mths Recovered/Total Debtors > 12 Months Old										
<u>Creditors Management</u>											
Creditors System Efficiency	% of Creditors Paid Within Terms										

Creditors to Cash and Investments	(within 'MFMA' s 65(e))	36.5%	21.2%	29.8%	6.6%	15.0%	16.3%	0.0%	14.3%	23.0%	54.5%
<u>Other Indicators</u>											
Electricity Distribution Losses (2)	Total Volume Losses (kW)										
	Total Cost of Losses (Rand '000)										
	% Volume (units purchased and generated less units sold)/units purchased and generated										
Water Distribution Losses (2)	Total Volume Losses (kℓ)										
	Total Cost of Losses (Rand '000)										
	% Volume (units purchased and generated less units sold)/units purchased and generated										
Employee costs	Employee costs/(Total Revenue - capital revenue)	33.8%	39.0%	41.5%	41.8%	47.7%	47.7%	0.0%	50.6%	50.6%	50.6%
Remuneration	Total remuneration/(Total Revenue - capital revenue)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%
Repairs & Maintenance	R&M/(Total Revenue excluding capital revenue)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		2.6%	2.6%	2.6%
Finance charges & Depreciation	FC&D/(Total Revenue - capital revenue)	43.1%	56.5%	52.3%	43.4%	52.3%	52.3%	0.0%	50.5%	50.5%	50.5%
<u>IDP regulation financial viability indicators</u>											
i. Debt coverage	(Total Operating Revenue - Operating Grants)/Debt service payments due within financial year	9.2	4.5	4.2	7.7	7.7	7.7	–	4.1	4.1	4.3
ii. O/S Service Debtors to Revenue	Total outstanding service debtors/annual revenue received for services	68.6%	102.7%	128.4%	129.2%	94.8%	94.8%	0.0%	180.8%	579.4%	579.4%
iii. Cost coverage	(Available cash + Investments)/monthly fixed operational expenditure	2.9	3.8	9.6	6.4	5.4	4.9	–	3.7	2.3	1.0

2.3.1 Performance indicators and benchmarks

2.3.1.1 Borrowing Management

Capital expenditure in local government can be funded by capital grants, own-source revenue and long term borrowing. The ability of a municipality to raise long term borrowing is largely dependent on its creditworthiness and financial position. *Borrowing funding of own capital expenditure* measures the degree to which own capital expenditure (excluding grants and

contributions) has been funded by way of borrowing. No borrowings are planned in the upcoming financial years.

2.3.1.2 Liquidity

- *Current ratio* is a measure of the current assets divided by the current liabilities and as a benchmark the Municipality has set a limit of 1, hence at no point in time should this ratio be less than 1. For the 2019/20 MTREF the current ratio is 2,1 in the 2019/20 financial year and 7.9 for the two outer years of the MTREF.
- *The liquidity ratio* is a measure of the ability of the municipality to utilize cash and cash equivalents to extinguish or retire its current liabilities immediately. Ideally the municipality should have the equivalent cash and cash equivalents on hand to meet at least the current liabilities, which should translate into a liquidity ratio of 1. Anything below 1 indicates a shortage in cash to meet creditor obligations. For the 2019/20 financial year the ratio was 2,1 and as part of the financial planning strategy it has been increased to 7.9 in the 2019/20 financial year. This needs to be considered a pertinent risk for the municipality as any under collection of revenue will translate into serious financial challenges for the Municipality. As part of the longer term financial planning objectives this ratio will have to be set at a minimum of 1.

2.3.1.3 Revenue Management

- As part of the financial sustainability strategy, an aggressive revenue management framework will have to be implemented to increase cash inflow, not only from current billings but also from debtors that are in arrears in excess of 90 days. The intention of the strategy is to streamline the revenue value chain by ensuring accurate billing, customer service, credit control and debt collection.

2.3.1.4 Creditors Management

- The Municipality has managed to ensure that creditors are settled within the legislated 30 days of invoice. While the liquidity ratio is of concern, by applying daily cash flow management the municipality has managed to ensure a 100 per cent compliance rate to this legislative obligation. This has had a favourable impact on suppliers' perceptions of risk of doing business with the Municipality, which is expected to benefit the Municipality in the form of more competitive pricing of tenders, as suppliers compete for the Municipality's business.

2.3.2 Free Basic Services: basic social services package for indigent households

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services, the households are required to register in terms of the Mhlontlo's Indigent Policy.

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

The municipality has set aside an amount totaling to R2.5 million for electricity indigents, and R2.5 million for alternate energy indigents.

2.4 Overview of budget related-policies

The Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

2.4.1 Review of credit control and debt collection procedures/policies

The Collection Policy as approved by Council in May 2018 is currently under review. While the adopted policy is credible, sustainable, manageable and informed by affordability and value for money there has been a need to review certain components to achieve a higher collection rate.

As most of the indigents within the municipal area are unable to pay for municipal services because they are unemployed, the Integrated Indigent Exit Programme aims to link the registered indigent households to development, skills and job opportunities. The programme also seeks to ensure that all departments as well as external role players are actively involved in the reduction of the number of registered indigent households.

2.4.2 Asset Management, Infrastructure Investment and Funding Policy

A proxy for asset consumption can be considered the level of depreciation each asset incurs on an annual basis. Preserving the investment in existing infrastructure needs to be considered a significant strategy in ensuring the future sustainability of infrastructure and the Municipality's revenue base. Within the framework, the need for asset renewal was considered a priority and hence the capital programme was determined based on renewal of current assets versus new asset construction.

Further, continued improvements in technology generally allows many assets to be renewed at a lesser 'real' cost than the original construction cost. Therefore, it is considered prudent to allow for a slightly lesser continual level of annual renewal than the average annual depreciation. The Asset Management, Infrastructure and Funding Policy is therefore considered a strategic guide in ensuring a sustainable approach to asset renewal, repairs and maintenance and is utilised as a guide to the selection and prioritisation of individual capital projects. In addition the policy prescribes the accounting and administrative policies and procedures relating to property, plant and equipment (fixed assets).

2.4.3 Budget Adjustment Policy

The adjustments budget process is governed by various provisions in the MFMA and is aimed at instilling and establishing an increased level of discipline, responsibility and accountability in the financial management practices of municipalities. To ensure that the Municipality continues to deliver on its core mandate and achieves its developmental goals, the mid-year review and adjustment budget process will be utilised to ensure that underperforming functions are identified and funds redirected to performing functions.

2.4.4 Supply Chain Management Policy

The Supply Chain Management Policy was adopted by Council in May 2018. An amended policy will be considered by Council in due course of which the amendments will be extensively consulted on.

2.4.5 Budget and Virement Policy

The Budget and Virement Policy aims to empower senior managers with an efficient financial and budgetary amendment and control system to ensure optimum service delivery within the legislative framework of the MFMA and the Municipality's system of delegations. The Budget and Virement Policy was approved by Council in May 2018 of both Operating and Capital Budget Fund Transfers.

2.4.6 Cash Management and Investment Policy

The Municipality's Cash Management and Investment Policy was approved by Council in May 2018. The aim of the policy is to ensure that the Municipality's surplus cash and investments are adequately managed, especially the funds set aside for the cash backing of certain reserves. The policy details the minimum cash and cash equivalents required at any point in time and introduces time frames to achieve certain benchmarks.

2.4.7 Tariff Policies

The Municipality's tariff policies provide a broad framework within which the Council can determine fair, transparent and affordable charges that also promote sustainable service delivery. The policies have been approved on various dates and a consolidated tariff policy is envisaged to be compiled for ease of administration and implementation of the next two years.

All the above policies are available on the Municipality's website, as well as the following budget related policies:

- Property Rates Policy;
- Funding and Reserves Policy;
- Budget Policy; and
- Basic Social Services Package (Indigent Policy).

2.5 Overview of budget assumptions

The budget for the 2019/2020 financial year was drawn up with the following assumptions and principles taken into account:

- The budget is prepared in terms of the provisions of the Generally Recognised Accounting Practice framework to comply with the provisions of the MFMA
- Revenue figures are based on realistic estimates of revenue to be collected.

- Actual revenue collected for the current year and realistic revenue projections were taken into account in determining the revenue for the coming year.
- The principals of economic viability and sustainability is applied in all services and where possible no cross subsidization is done between services.
- National growth parameters were used as far as possible for the determination of outer year budget amounts.
- A general salary increase of 6 % is used for the determination of the salaries of staff, Public office bearers and Senior Management.
- The Municipality still relies heavily on grants and subsidies for funding of the capital requirements for the 2019/2020 financial year and does not possess the financial capacity to raise capital from own revenue sources.
- Only funded capital projects are included in the capital estimates for the 2019/2020 financial year.
- Both the capital and operating budgets are informed by the IDP process done through a public participation process.

2.5.1 External factors

Owing to the economic slowdown, financial resources are limited due to reduced payment levels by consumers. This has resulted in declining cash inflows, which has necessitated restrained expenditure to ensure that cash outflows remain within the affordability parameters of the Municipality's finances.

2.5.2 General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2019/19 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Municipality's residents and businesses;
- The impact of municipal cost drivers;
- The increase in the cost of remuneration. Employee related costs comprise 51 per cent of total operating expenditure (excl. depreciation) in the 2019/19 MTREF and therefore this increase above inflation places a disproportionate upward pressure on the expenditure budget.

2.6 Municipal manager's quality certificate

QUALITY CERTIFICATE

I, _____ (Full Names), the Municipal Manager of Mhlontlo Municipality hereby certify that the Annual Budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act of 2003 and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

S.G. Sotshongaye

MUNICIPAL MANAGER

DATE

ANNEXURE A - PROPOSED TARIFF LIST

	WITHOUT VAT	Old Tariff	Proposed New Tariff Vat Excluded	Proposed Tariff Vat Excluded	Proposed Tariff Vat Excluded
1	REFUSE REMOVAL CHARGES	2018/2019	2019/2020	2020/2021	2021/2022
1.1	<i>Government</i>				
(a)	Each property shall be charged a basic service charge per month.	R 241.52	R 254.08	R 254.57	R 268.57
(b)	<i>Hospitals</i>	R 350.85	R 369.09	R 369.80	R 390.14
1.2	<i>Domestic Removals</i>				
(a)	Every owner or occupier of premises from which refuse is removed twice weekly shall pay the Council a fee per month.	R 57.55	R 60.55	R 60.66	R 64.00
1.3	<i>Commercial Removals</i>				
(a)	Each individual/separate business shall be charged a basic service charge per month.	R 358.30	R 376.93	R 377.65	R 398.42
1.4	<i>Availability Charge</i>				
	A availability fee , is charged to any vacant commercial erven located in the town areas of Tsolo and Qumbu	R 143.32	R 150.77	R 151.06	R 159.37
3	POUND FEES				
	Pound Fees				
	Description of animal				
	Donkeys, Horses, Cattle, per head per day	R 83.60	R 87.95	R 88.12	R 92.96
	Pigs	R 358.30	R 376.93	R 377.65	R 398.42
	Sheep and Goats, per head per day	R 59.72	R 62.82	R 62.94	R 66.40

3	CEMETERY CHARGES The following fees shall be payable to the Council in respect of burials and other services in the public cemetery.					
3.2	<i>Burial Fees</i>					
(a)	Adult - single	R 633.00	R 665.92	R 667.18	R 703.88	
	Adult - double	R 1,078.13	R 1,134.19	R 1,136.35	R 1,198.85	
(b)	Child	R 298.58	R 314.11	R 314.71	R 332.02	
		R 0.00	R 0.00	R 0.00	0	
3.3	<i>Miscellaneous Charges</i>	R 0.00	R 0.00	R 0.00	0	
		R 0.00	R 0.00	R 0.00	0	
	(a)	Exhumation of body	R 3,583.01	R 3,769.33	R 3,776.50	R 3,984.20
		R 0.00	R 0.00	R 0.00	R 0.00	
	(b)	Widening or deepening of grave	R 298.58	R 314.11	R 314.71	R 332.02
		R 0.00	R 0.00	R 0.00	R 0.00	
	(c)	Permit to erect a memorial	R 836.04	R 879.51	R 881.18	R 929.65
3.4	Fees for non-residents of the municipal area shall be the prescribed fees in (6.1) and (6.2) above, plus 50%	R 0.00	R 0.00	R 0.00	0	
3.5	After hours burial request as in (6.1) plus 100%	R 1,791.51	R 1,884.67	R 1,888.25	R 1,992.10	
	At least 16 working hours notice must be given of a burial					
4	PUBLIC HALLS TARIFF					
4.1	<i>Comm</i>					
(a)	Main hall and kitchen per 12 hour period per day. Church Function Wedding Function Business Function					
		R 380.52	R 400.31	R 401.07	R 423.13	
		R 1,902.58	R 2,001.52	R 2,005.32	R 2,115.61	
		R 1,902.58	R 2,001.52	R 2,005.32	R 2,115.61	

4.2	Where the hall is hired there shall first be deposited with the Chief Financial Officer the following amounts which amounts shall be refunded when the premises is handed over in satisfactory condition.	R 1,194.34	R 1,256.44	R 1,258.83	R 1,328.07
5	MISCELLANEOUS SERVICES	0		R 0.00	0
5.1	<i>Sundry Charges</i>	0		R 0.00	0
	Search Fees	0		R 0.00	0
		0		R 0.00	0
(a)	Other than from the Minutes of proceedings of the Council, for any document or information required dated back:	R 35.52	R 37.36	R 37.43	R 39.49
5.2	Copy of valuation roll				
5.3	Copy of voters roll (per ward)				
5.4	Rates clearance certificates as laid down in Section 175(2) of Ordinance No. 25 of 1974	R 36.14	R 38.02	R 38.10	R 40.19
5.11	<i>Rezoning applications</i>				
	Fees payable shall not exceed the following maximum amounts:				
	Areas of land being rezoned				
(a)	Area of land to be rezoned 0-2500m2	R 1,899.00	R 1,997.75	R 2,001.54	R 2,111.63
5.12	Vehicle pound fees on all impounded vehicles per vehicle per day plus tow-in costs Impounded vehicles not released within 90 (ninety) days will be sold.				
6	BUSINESS LICENSES				
6.1	Food Vendors in caravans & carts or similar vessel	R 358.30	R 376.93	R 377.65	R 398.42
6.2	General Dealers	R 1,194.34	R 1,256.44	R 1,258.83	R 1,328.07
6.3	Supermarkets, Wholesalers & Butcheries	R 1,433.21	R 1,507.73	R 1,510.60	R 1,593.68
6.4	Restaurants, B&B's, Hotels, Guest Houses, Lodges	R 1,194.34	R 1,256.44	R 1,258.83	R 1,328.07
6.5	Spaza Shops	R 358.30	R 376.93	R 377.65	R 398.42
6.6	Funeral Parlours	R 1,194.34	R 1,256.44	R 1,258.83	R 1,328.07

6.7	Hawker License: Trucks & Bakkies	R 238.87	R 251.29	R 251.77	R 265.61
6.8	Hawker License: Street Vendors	R 95.55	R 100.52	R 100.71	R 106.25
6.9	Hawker License: (Special Application – Events)	R 119.43	R 125.64	R 125.88	R 132.81
6.1	Clothing Shops	R 358.30	R 376.93	R 377.65	R 398.42
6.11	Hardware	R 1,194.34	R 1,256.44	R 1,258.83	R 1,328.07
6.12	Garages	R 1,194.34	R 1,256.44	R 1,258.83	R 1,328.07
6.13	Livestock Sales	R 597.17	R 628.22	R 629.42	R 664.03
6.14	Car wash	R 358.30	R 376.93	R 377.65	R 398.42
6.15	Laundromat/Dry Cleaning	R 358.30	R 376.93	R 377.65	R 398.42
6.16	Financial Institution	R 2,388.68	R 2,512.89	R 2,517.66	R 2,656.14
6.17	Beauty Parlour: Hair Salons, Barber Shops etc	R 358.30	R 376.93	R 377.65	R 398.42
6.18	Furniture Shops	R 1,194.34	R 1,256.44	R 1,258.83	R 1,328.07
6.19	Legal Practice	R 597.17	R 628.22	R 629.42	R 664.03
6.2	Surgeries	R 597.17	R 628.22	R 629.42	R 664.03
6.21	Transport Industry	R 238.87	R 251.29	R 251.77	R 265.61
6.22	Liquor: Bottle Stores, Taverns	R 1,194.34	R 1,256.44	R 1,258.83	R 1,328.07
6.23	Book Shops	R 776.32	R 816.69	R 818.24	R 863.24
6.24	Brokers: Insurance, Estate agents etc	R 597.17	R 628.22	R 629.42	R 664.03
8	ASSESMENT RATES				
7.1	<i>Residential</i> First R30 000 discount	R 0.00742	R 0.00781	R 0.00783	R 0.00826
7.2	<i>Vacant Land</i>	R 0.00742	R 0.00781	R 0.00783	R 0.00826
7.3	<i>Commercial</i>	R 0.01637	R 0.01722	R 0.01725	R 0.01820
7.4	<i>Government</i>	R 0.00186	R 0.00195	R 0.00196	R 0.00206
7.5	<i>Farms</i> Apply for R30 000 residential discount.	R 0.00186	R 0.00195	R 0.00196	R 0.00206

8 NATURE RESERVE					
8.1	<u>Accommodation</u>				
	1 bed chalet per day	R 119.43	R 125.64	R 125.88	R 132.81
	Camping fee	R 71.66	R 75.39	R 75.53	R 79.68
	non refundable application fee per board/sign (annually)	R 0.00	R 0.00	0	0
	+ Approval fee per applicant	R 179.15	R 188.47	R 188.82	R 199.21
9.1	<u>Ground Signs</u>	R 0.00	R 0.00	0	0
	non refundable application fee per board/sign (annually)	R 0.00	R 0.00	0	0
	+ Approval fee per applicant	R 358.30	R 376.93	R 377.65	R 398.42
9.2	<u>Wall Sign - Flat</u>	R 59.72	R 62.82	R 62.94	R 66.40
	non refundable application fee per board/sign (annually)				